

The Auditor-General  
Audit Report No.51 2012–13  
Performance Audit

# **Management of the Australian Taxation Office's Property Portfolio**

**Australian Taxation Office**

Australian National Audit Office

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Canberra ACT  
24 June 2013

Dear Mr President  
Dear Madam Speaker

The Australian National Audit Office has undertaken an independent performance audit in the Australian Taxation Office with the authority contained in the *Auditor-General Act 1997*. I present the report of this audit to the Parliament. The report is titled *Management of the Australian Taxation Office's Property Portfolio*.

Following its presentation and receipt, the report will be placed on the Australian National Audit Office's Homepage—<http://www.anao.gov.au>.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Ian McPhee', is positioned above the printed name and title.

Ian McPhee  
Auditor-General

The Honourable the President of the Senate  
The Honourable the Speaker of the House of Representatives  
Parliament House  
Canberra ACT

## AUDITING FOR AUSTRALIA

The Auditor-General is head of the Australian National Audit Office (ANAO). The ANAO assists the Auditor-General to carry out his duties under the *Auditor-General Act* 1997 to undertake performance audits, financial statement audits and assurance reviews of Commonwealth public sector bodies and to provide independent reports and advice for the Parliament, the Australian Government and the community. The aim is to improve Commonwealth public sector administration and accountability.

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# Abbreviations

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ANAO	Australian National Audit Office
ATO	Australian Taxation Office
BSL	Business Service Line
Finance	Department of Finance and Deregulation
IDC	Inter-departmental Committee
NAF	National Accommodation Forum
PRODAC	Australian Government Property Data Collection
PS&ES	Property, Security and Environmental Services Branch

# Glossary

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AusTender	The central web-based facility for publication of Australian Government procurement information.
PRODAC	The collection of property data by agencies relating to occupational density and property costs. Administered by the Department of Finance and Deregulation.
Commonwealth Property Management Framework	Policy and guidance provided to agencies subject to the <i>Financial Management and Accountability Act 1997</i> to inform the management of their property portfolio.
Lease	A legal agreement made between the lessee and a lessor which grants possession of a premises for a fixed period in exchange for the payment of rent.
Workpoint	A desk, an enclosed office or a section of a counter or reception at which it would be reasonable to expect one person to carry out office work on an ongoing basis.
Property management	Relates to the effective operation of an agency's workplace and infrastructure and its coordination with business activities, employees and stakeholders.
Property management plan	A plan which sets out an agency's proposed property management activity over a given period.



# **Summary and Recommendations**

# Summary

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## Background and context

1. The Australian Taxation Office (ATO) is Australia's principal revenue collection agency, with responsibility for administering Australia's tax and superannuation systems. It is a large government agency, with an operating budget of \$3.45 billion for 2012–13, and around 24 000 staff working from offices located across all states and territories.<sup>1</sup> As at 31 December 2012, the ATO's property portfolio included 19 offices in central business districts nationally, eight in suburban areas and nine in major regional centres.<sup>2</sup> The ATO's property-related expenditure was \$238 million in 2011–12 (excluding the costs associated with ATO staff assigned to property management) or seven per cent of its total operating budget.
2. The management of Commonwealth property plays a key role in supporting the delivery of an agency's services to government and the public. Property provides a platform from which to administer and deliver services and, as such, must fulfil that role by providing accommodation of the right quality, in the right location, at a cost commensurate with the service delivery. Property management contributes to the effective operation of an agency's workplace and infrastructure and requires co-ordination with its business activities, employees and stakeholders. To achieve this end, agencies are required to set clear property objectives as part of comprehensive strategic planning processes and establish internal procedures to facilitate effective property planning and administration.<sup>3</sup>
3. Over the years, Australian governments have taken different approaches to the management and regulation of government property, with significant implications for how agencies manage their property portfolios. Throughout the 1990s the (then) Government's reforms made agencies responsible for managing their own properties, consistent with a set of property principles. The application of these principles generally resulted in

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<sup>1</sup> ATO, *ATO Annual Plan 2012–13*, Corporate overview. Staff numbers provided by ATO.

<sup>2</sup> The ATO also: had 18 regional outposts, which are smaller offices in regional centres; provided a limited service from shared premises with the Department of Human Services in seven locations across Australia; and maintained four storage sites. ATO, *Commissioner of Taxation Annual Report, 2011–12*, p. 145, and ATO advice.

<sup>3</sup> Department of Finance and Deregulation, *Property Management Planning Guidance*, January 2012, section 3.

agencies entering into commercial property leases.<sup>4</sup> This position applied to the ATO, whereby all premises are leased. Further, since 1999 the ATO has outsourced property management services to one of several commercial companies in Australia providing property and leasing services.

4. The ATO's first property management services contract, valued at \$8 million<sup>5</sup>, covered the period 1999–2004, and included a relatively narrow range of services covering lease administration, bill paying, building inspections and routine maintenance. The services provided were expanded in the second contract, 2004–12, valued at \$22.1 million (including extension options), to include almost all aspects of property management, from the delivery of cleaning services to the management of complex capital works projects. The current contract is valued at \$17.2 million for the period 2012–17, with two, two-year extension options available. It requires greater contractor input to long-term strategic property management planning and clarifies the contractor's role in providing environmental and value added services. The increased range of services reflects the recommendations from the three contract reviews undertaken by the ATO prior to exercising contract extensions in 2007 and 2009 and issuing a request for tender in 2011.

5. The Australian Government's current approach to the management of government property was outlined in September 2009, when the Department of Finance and Deregulation (Finance) released the Commonwealth Property Management Framework.<sup>6</sup> The framework sets out key policies and legislative requirements, including legislation related to property management<sup>7</sup>, under which agencies are accountable for managing their property portfolios.<sup>8</sup>

6. In 2009–10 Finance introduced, as part of the Property Framework, the requirement for agencies to have a property management plan in place by

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<sup>4</sup> One of these principles was that the Government should only own property where the assessed long-term yield exceeded a nominated rate, or it was in the public interest to do so.

<sup>5</sup> The ATO's property management services contracts are complex procurement arrangements that include: fixed and variable fees; 'pass through' expenses that the provider pays on behalf of the ATO; and contract extension options. The reported value of these contracts has varied, subject to the components of the contract that are included in the total value.

<sup>6</sup> The Property Management Framework is a component of the Australian Government's Financial Management Framework. The financial framework underpins the appropriation, expenditure and use of money and resources within the Australian Government.

<sup>7</sup> Government legislation and policies that interact with the Commonwealth Property Management Framework are listed on the Finance website, available from [www.finance.gov.au/property/property/docs/legislation\\_and\\_policies\\_that\\_interact\\_with\\_commonwealth\\_property\\_management.pdf](http://www.finance.gov.au/property/property/docs/legislation_and_policies_that_interact_with_commonwealth_property_management.pdf) [accessed 10 December 2012].

<sup>8</sup> Department of Finance and Deregulation, *Overview of the Commonwealth Property Management Framework*, Financial Management Guidance No.13, January 2012.

October 2010, which was to be reviewed and updated annually, or as required.<sup>9</sup> Property management plans have to be linked with other corporate planning functions, to establish that the agency's property portfolio is appropriate for the size and nature of its existing and future business needs.

7. Consequently, the ATO began establishing new processes and procedures to satisfy Finance's new requirements and to more effectively manage its property portfolio. The measures are designed to support a more comprehensive and strategic approach to property management than previously practised. As at April 2013, arrangements supporting the ATO's administration of its property portfolio are centred around the Property Services and Environmental Services branch, the National Accommodation Forum, and the Environmental Management Committee, whereby the:

- Property Services and Environmental Services branch provides a range of office-based property services across all ATO locations and works with the contracted property management services provider on all aspects of the ATO's property portfolio. As at December 2012, the branch had 162 staff working from 23 ATO offices and a total operating budget of over \$286 million in 2012–13, including: \$263.2 million for property operating expenses such as for leasing, cleaning, energy, maintenance and security; staffing costs of \$16.9 million; and supplier costs of \$6.6 million, including costs associated with the outsourced property services contract;
- National Accommodation Forum, established in 2009, provides executive-level oversight and greater visibility to the management of the ATO's property portfolio, strengthening the links between property and the ATO's business requirements; and
- Environmental Management Committee, formed in February 2011, develops and implements the ATO's environmental initiatives. It includes representatives from across the ATO, including the procurement branch.

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<sup>9</sup> Additional guidance is provided in the ANAO Better Practice Guide, *Strategic and Operational Management of Assets by Public Sector Entities*, 13 September 2010.

## Audit objective and criteria

8. The objective of the audit was to assess the effectiveness of the ATO's management of its property portfolio. In particular the ANAO examined whether the ATO's:

- property management arrangements supported the agency's property objectives and business requirements;
- external contract for the provision of property management services reflected the ATO's property management arrangements; and
- contract management framework provides assurance that the property portfolio is being effectively managed.

## Overall conclusion

9. The ATO has a large and geographically dispersed property portfolio that in December 2012 included 65 offices, with the major buildings located in central business districts and major regional centres. The ATO's property-related expenditure was \$238 million in 2011–12, or seven per cent of the total operating budget of \$3.4 billion for that year. All premises occupied by the ATO are leased—the ATO does not own any property.

10. Despite being a large agency with significant property leasing and operating costs, prior to 2009 the ATO did not have comprehensive property management and planning processes. There was limited capacity to monitor the use and costs of its large property portfolio, including the quantity of leased office space that was used or vacant. Leasing arrangements at that time were often being entered into at short notice with little longer-term planning. Property costs were often viewed as fixed annual costs, with minimal consideration being given to options for cost savings and efficiencies.

11. Commencing in 2009–10, the ATO has substantially revised its property management approaches, implementing a number of initiatives to strengthen the planning, operation and reporting of its extensive property portfolio, and to comply with the Commonwealth's Property Framework. These initiatives have included: preparing an overarching *Property Management Plan (2010)* and associated Location Plans to guide accommodation decisions; establishing the National Accommodation Forum to consider accommodation policy, usage

and costs at an executive level across the ATO; and implementing an accommodation planning system to better forecast the demand for and use of office space.<sup>10</sup>

12. Together with better management and oversight of the property contractor, these initiatives have improved the ATO's overall management of its property portfolio. However, many of these initiatives have only been recently implemented, and the ATO has still to review and update the *Property Management Plan (2010)* and align property planning processes with the ATO's corporate plans. Finalising these initiatives would better support the ATO to effectively manage its property portfolio. Updating the property management plan will allow the ATO to establish an overarching strategy for its property portfolio (as no such strategy is defined in the current plan or Location Plan<sup>11</sup>), which contains clear property objectives. Better integration with the corporate planning cycle would further align property decisions with the agency's business and operating requirements.

13. Contracts for the external provision of property management services have reflected the ATO's property management arrangements and requirements. Services being provided by the contractor have been progressively increased over the course of the three property services contracts<sup>12</sup>, with the second and third contract being entered into with the same company. The contract management framework is sound and, as is to be expected, the management of property contracts has improved over time, drawing on the three contract reviews (undertaken prior to exercising contract extensions and issuing the recent contract request for tender) and in response to the introduction of the Property Framework in 2009–10. The reporting of contractor performance is comprehensive. Arrangements to assess this information and oversight contractor performance have particularly been strengthened since 2009–10, with ATO staff more closely examining contractor performance.

14. The ATO has documented processes and controls that guide and support the approval and correct payment of fees to the contractor. ANAO analysis indicated that these controls worked effectively overall. However,

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<sup>10</sup> The system improves the ATO's accommodation reporting capabilities by overlaying office floor plans with staff locations listed in the ATO Staff Directory.

<sup>11</sup> However, the ATO's property management services contract 2012–17 refers to an 'overarching strategy of rationalising space and moving to purpose built facilities'. ATO, *Property Management Services Contract, 2012–17*, p. 207.

<sup>12</sup> Paragraph 3 outlines the services covered in the various property management services contracts.

around 20 per cent of invoices analysed did not have evidence of project manager approval, or were not marked or signed as required. The ATO has established these processes to reduce the risk of incorrect or fraudulent payments, and they should be consistently applied.

15. The ATO reports the value of its property management services contracts on AusTender to support accountability and transparency in government procurement activities.<sup>13</sup> In 2011–12, the ATO implemented a number of new practices and procedures designed to improve AusTender gazettal requirements across the ATO. Contract procurement rules issued by Finance set out agencies' reporting requirements but do not cover the format and detail of the reporting of complex procurement arrangements, such as the ATO's property management services contracts. Strengthening this guidance would assist the ATO and other agencies to accurately and consistently report their contracting expenditures.

16. The ANAO has directed one recommendation to the ATO, to improve its property planning processes and their alignment with the corporate planning cycle; and directed a second recommendation to Finance, to provide more comprehensive guidance for agencies' AusTender reporting of complex procurement arrangements.

## Key findings

### Property Management and Planning (Chapter 2)

17. Since 2009, the ATO has implemented a number of administrative and operational changes and initiatives to strengthen the management of its property portfolio. The new arrangements commenced with the development of a strategic property plan, the ATO's *Property Management Plan (2010)*, in response to the requirements of the Property Framework. The ATO did not have the necessary skills in-house to develop this plan, and could only access limited property related data and information.

18. Other major property initiatives introduced over the past four years to address shortcomings identified in property management and planning include: establishing, at a senior executive level, a National Accommodation Forum to provide strategic oversight of the agency's property portfolio; and

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<sup>13</sup> AusTender is the Australian Government's procurement information system.

developing annual Location Plans that provide information on the location and cost of the ATO's properties up to five years in advance. Administrative changes also include forming: a Change Advisory Board, whose members are responsible for ensuring the accuracy of core documentation that sets out standards and procedures governing aspects of the ATO's property portfolio; and an Environmental Management Committee to advance the ATO's environmental initiatives.

19. The implementation of a computer-based accommodation planning and reporting system has improved the quality and accuracy of property-related data. Reports provided by the system will assist the ATO with the planning and operations of its property portfolio. Further, recently completed individual property plans provide easily accessible data on each property under lease to the ATO.

20. As at April 2013, many of these initiatives were only recently implemented and required further refinement. Notably, the ATO had still to review and update the agency's *Property Management Plan (2010)*, to establish an overarching strategy for its property portfolio and integrate the property planning function within the ATO's broader corporate planning cycle. Additionally, the linkages and dependencies between the ATO's property management plan and its location plans could be more clearly defined. Lack of security certification also restricts the ATO's use of the accommodation planning system, despite the system being in use for some 18 months, and the ATO has not yet met the Government's occupational density target.<sup>14</sup> The new property management approaches are not yet fully implemented, and will require ongoing senior executive oversight and agency-wide promotion and understanding.

### **Administration of property management services contracts (Chapter 3)**

21. The property management services contract reflects the range and complexity of the services required to manage the ATO's extensive property portfolio. The contract performance framework encompasses a comprehensive range of performance standards with a focus on the most important indicators

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<sup>14</sup> The ATO aims to meet the Australian Government's workpoint target of 16 square metres per occupied workpoint but has not fully achieved this target in recent years. For example, the ATO reported a reduction in the agency's overall density footprint by 0.38 square metres, from 16.87 square metres in June 2011 to 16.49 square metres in June 2012. ATO, *Commissioner of Taxation Annual Report 2011–12*, p. 146.



but does not attempt to monitor the full suite of the services provided. The ATO advised that to do so would require significant additional resources.

**22.** Rather, the structure of the framework, through contract management groups<sup>15</sup> and a mix of high-level critical success factors<sup>16</sup> and key deliverables, is designed to support a professional relationship based on good communication and trust between the parties. The ATO advised that the relationship with the provider has matured in recent years, supported by changes in the agency's approach to property management.

**23.** Performance management arrangements allow many opportunities for communication between the ATO and the provider, and monthly performance monitoring provides for early redress of any lapses in service provision. Assessing the provider's performance is conducted, initially, by relevant staff in the Property, Security and Environmental Services branch who are required to document their reasons for the score they are recommending, prior to formal discussion with the provider in the contract management groups. The branch also consults more broadly across the ATO on the standard of services provided.

**24.** Under the ATO's property management services contracts, 15 key performance indicators (KPIs) are routinely measured to assess the provider's performance.<sup>17</sup> These KPIs are relevant and sufficiently complete in that they allow the ATO to monitor essential aspects of the services being delivered. They are also measureable without imposing an unreasonable administrative burden on either ATO staff or those of the provider. Reliability is evident from the rigour and broad consultation undertaken as part of the monthly scoring process.

**25.** The KPI results are applied in a balanced scorecard approach<sup>18</sup> to assess the provider's annual performance and bonus payment, introduced through a contract variation in 2005. In each of the six years since the introduction of the balanced scorecard, the overall score has remained static and the provider has

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<sup>15</sup> Contract management groups link relevant staff in the ATO with their service provider counterparts, aligned with the various services delivered under the contract.

<sup>16</sup> Critical success factors are not designed to be measured but are used by the ATO to view the success of the overall contractual relationship.

<sup>17</sup> Fourteen KPIs were specified in the 2004–12 contract. An additional KPI measuring the quality of the contract manager's key personnel was added in the 2012–17 contract.

<sup>18</sup> The balanced scorecard is a strategic management and measuring process used to help align specific business activities with an organisation's strategy and vision, developed in the 1990s in the Harvard Business School. The ATO is using a form of the balanced scorecard to align key contract objectives with provider performance.

received a bonus payment, although there was little evidence for the basis of these payments in the early years. However, contract management has strengthened since 2009–10, and close monitoring of the KPIs promotes continuous improvement in the provider's performance and eligibility for bonus payments.

26. The contract management framework applied by the ATO has been assessed by an external consultant as appropriate, and the critical success factors and KPIs have been reviewed and revised to align with the ATO's service priorities. Overall, the ATO has an effective process to manage the contract management services contract, and to monitor the provider's performance under the contract.

## **Contract payment arrangements (Chapter 4)**

27. The ATO has detailed, documented procedures that set out the stages of the contract payment process, from receipt of an invoice to fee payment.<sup>19</sup> The procedures effectively support the approval and correct payment of invoices of project management fees.<sup>20</sup> The ATO also applies a number of measures to control and verify the payment of 'pass through' expenses<sup>21</sup> that include conducting a monthly quality assurance process on the provider's invoices and selecting a monthly sample of invoices to check if they have been paid within the 30 days timeliness standard. The controls the ATO applies provide assurance that they are correctly paid and within the required timeframe.

28. The ANAO reviewed 178 invoices for project management fees, and tested two key stages of the ATO's payment process. The results of the testing indicated that these procedures were largely followed, however:

- 37 of the 178 invoices, valued at \$643 851 (21 per cent) were not signed or marked as required, before being emailed to the accounts section for payment; and

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<sup>19</sup> The ATO's property management services contracts, 2004–12 and 2012–17, have four categories of fees: management; real estate and facilities management; project management; and implementation and transition to a new provider.

<sup>20</sup> Project management fees are paid for the: management of the capital works program, that is a fixed annual fee, paid by monthly installments; and delivery of individual projects. Where fees are variable, they are calculated on an incremental percentage scale based on the value of the work.

<sup>21</sup> Payments for outgoings, including rent, are made in advance by the ATO: the provider submits an invoice for the amounts and the ATO transfers the funds into an approved account that the provider can draw on when payments are due. These payments are referred to as 'pass through' expenses.

- 22 invoices, valued at \$191 404 (17 per cent) that included variable fees were not signed and approved by the relevant ATO project manager.

The ATO has established these processes to reduce the risk of incorrect or fraudulent payments, and they should be consistently applied.

29. The amounts paid to the provider in project management fees are included in the value of the property management services contracts the ATO publishes on AusTender. The ATO publishes this information to meet its obligations under the Commonwealth Procurement Rules.<sup>22</sup> Finance provides procurement policy and guidance to assist agencies' to comply with AusTender reporting requirements.<sup>23</sup>

30. In relation to the ATO's reporting of the value of its property management services contract, 2004–12, the value of the contract has included, at different times, lease costs, and different components of the fees: fixed fees only, or fixed and variable fees. In June 2009, the ATO's entry on AusTender included 'pass through' expenses for the first time, increasing the reported value of the contract by \$302.9 million; with the final value of the contract reported at around \$555 million, in contrast to the estimated value of \$10.8 million at commencement of the contract in January 2005. However, the treatment of 'pass through' expenses, with regard to the value of the contract, is not defined in AusTender guidance. The ANAO sought advice from Finance on the reporting requirements for complex property contracting arrangements, particularly the treatment of 'pass through' expenses. Finance advised that further whole-of-government guidance would assist in ensuring transparency of the financial commitment made by an agency for these more complex procurements.

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<sup>22</sup> The Commonwealth Procurement Rules represent the Government's policy framework under which agencies govern and undertake their own procurement. The Commonwealth Procurement Rules took effect from 1 July 2012, replacing the Commonwealth Procurement Guidelines issued in December 2008.

<sup>23</sup> Department of Finance and Deregulation, *Buying for the Australian Government, Transparency in Australian Government Procurement*, available from <<http://www.finance.gov.au/procurement/procurement-policy-and-guidance/buying/accountability-and-transparency/transparency-procurement/principles.html>> [accessed 22 February 2013].

## Summary of agencies' responses

### Australian Taxation Office

31. The ATO provided the following summary response to the audit report:

The ATO welcomes this audit and considers the report supportive of our overall approach to managing the ATO Property Portfolio. The audit recognises a level of complexity that exists with managing a large service provider and portfolio and is positive in acknowledging the significant improvements made since 2009. The ATO has also worked to ensure our active support for the Department of Finance and Deregulation in the building and introduction of the Commonwealth Property Management Framework. The ATO agrees with recommendation one and supports the second recommendation for the Department of Finance and Deregulation.

### Department of Finance and Deregulation

32. Finance provided the following summary response to the audit report:

The Finance website guidance on reporting of contracts does not include specific information on the reporting of complex procurement arrangements. Finance will develop additional guidance to assist agencies in this area.

33. Agencies' full responses are included in Appendix 1.

# Recommendations

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**Recommendation  
No. 1****Paragraph 2.68**

To support the ongoing initiatives in property management and planning, and consistent with Department of Finance and Deregulation guidance, the ANAO recommends that the Australian Taxation Office maintains an overarching property management plan, which is updated every two or three years in line with the agency's corporate planning cycle, and provides clear strategic direction for its property portfolio.

**ATO response:** *Agreed*

**Recommendation  
No. 2****Paragraph 4.35**

The ANAO recommends that the Department of Finance and Deregulation engages with the Australian Taxation Office and other agencies through the existing network of procurement professionals to further develop and publish whole-of-government guidance for AusTender reporting of complex procurements arrangements.

**Finance response:** *Agreed*



## **Audit Findings**

# 1. Context and Background

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*This chapter provides information on the legislative and policy framework applicable to the management of Commonwealth property, outlines the Australian Taxation Office's property management arrangements, and discusses the Australian commercial property market. The chapter also outlines the audit objective, criteria and methodology.*

## Introduction

**1.1** The Australian Taxation Office (ATO) is Australia's principal revenue collection agency, with responsibility for administering Australia's tax and superannuation systems. It is a large government agency, with around 24 000 staff working from offices located across all states and territories, and an operating budget of \$3.45 billion for 2012–13.<sup>24</sup>

**1.2** As at 31 December 2012, the ATO's extensive and geographically dispersed property portfolio included 19 offices in central business districts nationally, eight in suburban areas and nine in major regional centres. The agency also: had 18 regional outposts<sup>25</sup>; provided a limited service from shared premises with the Department of Human Services in seven locations across Australia; and maintained four storage sites.<sup>26</sup> All premises occupied by the ATO are leased—the ATO does not own any property.

**1.3** The ATO's property portfolio costs accounted for seven to eight per cent of the ATO's total operating expenditure over the last four years. As shown in Table 1.1, the major property expenses are rent (leasing), building outgoings (including items such as land rates, taxes, after-hours air conditioning and plant hire), cleaning, electricity, security and maintenance.

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<sup>24</sup> ATO, *ATO Annual Plan 2012–13*, Corporate overview.

<sup>25</sup> ATO regional outposts are small ATO offices, distinct from larger offices, in major regional centres.

<sup>26</sup> ATO, *Commissioner of Taxation Annual Report, 2011–12*, p. 145, and ATO advice.



**Table 1.1****ATO property operating expenditure 2009–10 to 2011–12**

Expenditure item	2009–10 \$	2010–11 \$	2011–12 \$
Rent	173 871 968	179 496 010	179 954 156
Building outgoings	13 482 624	14 993 265	15 199 930
Cleaning	11 196 058	11 546 756	11 359 247
Electricity	9 313 179	9 649 637	7 774 508
Guarding	6 517 680	6 589 418	5 978 911
Security maintenance	7 218 449	4 892 158	5 583 106
Repairs and maintenance	5 157 482	5 206 044	5 038 244
Relocations	3 940 790	2 337 188	3 505 120
Refurbishment costs	1 521 471	2 429 644	2 832 895
Furniture and fittings	2 955 938	1 100 365	2 151 006
Other fees	3 746 021	3 737 486	777 915
Make good	154 105	4 466	339 375
Fit out costs	292 936	0	0
<b>TOTAL</b>	<b>239 368 701</b>	<b>241 982 437</b>	<b>240 494 413</b>

Source: ATO Finance.

**1.4** The size and nature of the ATO's property portfolio reflect the approach of successive Australian Governments to the management and regulation of Commonwealth property, and changes to the ATO's operational requirements over the years. Matters impacting on the ATO's property portfolio include:

- the (then) Government's reforms, implemented through the 1990's, involving decentralisation arrangements for the management of government property. Agencies were made responsible for managing their own properties, consistent with a set of property principles which generally resulted in them entering into commercial leases rather than owning properties<sup>27</sup>; and

<sup>27</sup> One of these principles was that the Government should only own property where the assessed long-term yield exceeded a nominated rate, or it was in the public interest to do so.

- an increase in the ATO's staffing numbers and locations: in 1997–98 the ATO employed 16 388 staff, operating from a national office and 25 branch offices<sup>28</sup>; by June 2005, staffing numbers had increased to over 22 000<sup>29</sup> employees working from 129 leased premises in 71 locations.

1.5 Of the 129 leases the ATO held in 2005, 93 had expiry dates in the three year period 2006–09 with, at one point, 11 separate leases for accommodation in the same office block. In response to the challenges presented by the leasing arrangements and to meet the new government reporting requirements for property that came into effect in 2009–10<sup>30</sup>, the ATO recognised the need for a more comprehensive and strategic approach to property management. In mid-2009, the ATO began establishing new processes and procedures for managing its extensive property portfolio, some of which are still being implemented in 2012–13.

## Management and regulation of Commonwealth property

1.6 Commonwealth property is defined as the infrastructure, land, buildings or heritage assets owned or leased by the Commonwealth, or an Australian Government agency.<sup>31</sup> In 2012, the Government's non-financial assets of land, buildings, investment property, plant and equipment was valued at approximately \$94 billion.<sup>32</sup> Expenditure on property represents a considerable use of government resources: in 2011–12 operating lease rental expenses alone were over \$2.6 billion; with lease commitments of over \$9.8 billion for the five-year period to 2015–16.<sup>33</sup>

1.7 The management of Commonwealth property plays a key role in supporting the delivery of an agency's services to government and the public. Property provides a platform from which to administer and deliver services

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<sup>28</sup> ATO, *Commissioner of Taxation Annual Report 1997–98*, pp. 67 and 75.

<sup>29</sup> ATO, *Commissioner of Taxation Annual Report 2005–06*, available from <<http://www.ato.gov.au/corporate/content.aspx?menuid=0&doc=/content/64667.htm&page=177&H177>>.

<sup>30</sup> The new reporting requirements included that agencies should have a Property Management Plan in place by 1 October 2010.

<sup>31</sup> Department of Finance and Deregulation, *Overview of the Commonwealth Property Management Framework*, January 2012, p. 14. Available from <[http://www.finance.gov.au/property/property/overview\\_cpmf/overview\\_cpmf.html](http://www.finance.gov.au/property/property/overview_cpmf/overview_cpmf.html)> [accessed 5 December 2012].

<sup>32</sup> Department of Finance and Deregulation, *Commonwealth Consolidated Financial Statements 2012*, p. 28. [Internet] available from <<http://www.finance.gov.au/publications/commonwealth-consolidated-financial-statements/docs/2012/consolidated-financial-statement-2011-12.pdf>> [accessed 5 December 2012].

<sup>33</sup> *ibid*, pp. 85 and 114.

and, as such, must fulfil that role by providing accommodation of the right quality, in the right location, at a cost commensurate with the services delivered. Property management contributes to the effective operation of an agency's workplace and infrastructure and requires co-ordination with its business activities, employees and stakeholders.

1.8 Over the years, Australian governments have taken different approaches to the management and regulation of Commonwealth property, with significant implications for how agencies manage their property portfolios. Most recently, the Government provided the Department of Finance and Deregulation (Finance) with \$10.1 million over four years (2009–10 to 2012–13) to work with agencies subject to the *Financial Management and Accountability Act 1997* (FMA Act) to:

... develop a governance policy framework for property management (along the lines of the (then) *Commonwealth Procurement Guidelines* and the *Commonwealth Grants Guidelines*) and undertake activities to obtain benefits from a whole of government approach to property management through such measures as benchmarking, standard documentation, co-operation in the property market and sharing of best practice.<sup>34</sup>

1.9 In September 2009, Finance released the Commonwealth Property Management Framework (the Property Framework) and continues to develop and publish guidance material to assist agencies with property-related policy interpretation and requirements.<sup>35</sup>

## The Commonwealth Property Management Framework

1.10 The Property Framework is a component of the Australian Government's Financial Management Framework<sup>36</sup> relating to the management of land or buildings that are owned or occupied by the Commonwealth. It sets out key policies and legislative requirements, including legislation related to property management<sup>37</sup>, under which agencies are

<sup>34</sup> Department of Finance and Deregulation, *Commonwealth Property Management Framework*, authority for new program proposal for the period 2009–10 to 2012–13.

<sup>35</sup> The Department of Finance and Deregulation's *Financial Management Guidance* materials are available from <<http://www.finance.gov.au/property/property/property-management-framework.html>> [accessed 10 December 2012].

<sup>36</sup> The financial framework underpins the appropriation, expenditure and use of money and resources within the Australian Government. It is an important feature of an accountable and transparent public sector and informs the daily work of Australian Government agencies, office holders and their employees.

<sup>37</sup> Government legislation and policies that interact with the Commonwealth Property Management Framework are listed on the Finance website, available from <[www.finance.gov.au/property/property/docs/legislation\\_and\\_policies\\_that\\_interact\\_with\\_commonwealth\\_property\\_management.pdf](http://www.finance.gov.au/property/property/docs/legislation_and_policies_that_interact_with_commonwealth_property_management.pdf)> [accessed 10 December 2012].

accountable for managing their property portfolio.<sup>38</sup> In 2009–10, Finance issued guidance material on property management in order to support agencies' compliance with the requirement in the Property Framework<sup>39</sup> to have a property management plan in place by October 2010. The guidance material issued by Finance is the:

- *Commonwealth Property Management Guidelines*, October 2009, (Property Guidelines) and
- *Property Management Planning Guidance*, January 2010, (Planning Guidance).

### ***Commonwealth Property Management Guidelines***

**1.11** The Property Guidelines are largely principles based, but contain mandatory requirements for all agencies to have a property management plan, and to provide data to Finance on the properties leased and owned by FMA Act agencies.<sup>40</sup>

**1.12** The Property Guidelines outline the Government's expectations for all agencies in relation to their property portfolio, and set out five principles to support efficient, effective and ethical property management. The principles are that agencies should:

- achieve value for money;
- undertake property management planning to support the agency's short, medium and long term property objectives (including the requirement of having a property management plan in place by 1 October 2010);
- ensure efficient and effective design to deliver core business outputs (with the requirement of meeting and reporting office occupational density targets);
- develop appropriate accountability measures to ensure property management is conducted soundly; and

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<sup>38</sup> Department of Finance and Deregulation, *Overview of the Commonwealth Property Management Framework*, Financial Management Guidance No.13, January 2012.

<sup>39</sup> Additional guidance is provided in the ANAO Better Practice Guide, *Strategic and Operational Management of Assets by Public Sector Entities*, 13 September 2010.

<sup>40</sup> Department of Finance and Deregulation, *Commonwealth Property Management Guidelines*, October 2009.

- support co-operative Commonwealth property management to facilitate opportunities for a more targeted use of Commonwealth property resources.

**1.13** The principle relating to property management planning is particularly important, as it is this process that supports an agency's strategic directions and decisions about its property portfolio. The Property Guidelines introduced the requirement that all agencies should have a property management plan, but did not mandate the form and content of the plan. Rather, agencies were advised to undertake planning based on identified better practices, with the intent that the plan would be reviewed and updated annually, or as required. The Planning Guidance was developed by Finance to assist agencies to comply with this requirement.

### *Property Management Planning Guidance*

**1.14** The Planning Guidance notes that property management plans are an important strategic planning tool for agencies, and that a property management plan should enable the chief executive (or an official authorised by the chief executive) to establish that the agency's property is appropriate for the size and nature of the agency's existing and future business needs. Property plans should be:

... prepared in conjunction with and directly linked to an agency's broader strategic plans, including business and corporate plans. The linking to strategic plans will ensure that property management is closely aligned with other agency objectives and that property management issues are well understood and given appropriate consideration by executive management within the agency.<sup>41</sup>

**1.15** Agencies are advised to review and update their property management plans on an annual basis, or more regularly if circumstances require (including when an unforeseen event occurs that is significant enough to have a major impact on the agency's property requirements), to allow the plan to remain aligned with the business objectives of the agency.

### *Occupational density targets and cost file data*

**1.16** In addition to the requirement to develop a property management plan, in 2009–10 Finance introduced a policy measure requiring agencies to provide

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<sup>41</sup> Department of Finance and Deregulation, *Property Management Planning Guidance*, January 2012, paragraph 2.3.

information on any government properties with 500 square metres or more of office space.<sup>42</sup> The purpose of collecting this information is to 'track progress against the occupational density target of 16 square metres per occupied workpoint (16 m<sup>2</sup>/OWP) set by the Government as they (the agencies) enter into new lease commitments or undertake major fit-outs'.<sup>43</sup>

**1.17** Agencies were initially required to collect occupational density data and report this information to Finance in September 2009 and six-monthly thereafter. Reporting arrangements were changed to annually in 2012. Referred to as the Australian Government Property Data Collection (PRODAC), the initial data collection provided a 'point in time' picture of the Government's office tenancies, and formed a baseline from which trends in occupancy could be measured. The results were first published in the *Australian Government Occupancy Report 2009*.

**1.18** The scope of PRODAC was expanded in 2010–11, requiring agencies to provide data on their property costs.<sup>44</sup> In December 2012, Finance advised that occupational density and cost data will be published in its next report, at a date still to be confirmed.

### *Whole-of-government property meetings*

**1.19** To support the implementation of the Property Framework, and to promote good practice in property management across public sector agencies, Finance has established two Commonwealth inter-departmental committees (IDCs)<sup>45</sup>, and one forum. The establishment of the IDCs and forum facilitates co-operative Commonwealth property management, which is one of the five Commonwealth Property Management Principles contained in the Property Guidelines. The IDCs are:

- one, at Assistant Secretary level, which provides a platform for agencies to interact with the area of Finance responsible for the development

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<sup>42</sup> Department of Finance and Deregulation, *Commonwealth Property Management Guidelines, Financial Management Guidance No. 16*, Asset Management Group, Canberra, October 2009, p. v. available from <[http://www.finance.gov.au/publications/fmg-series/docs/FMG\\_16.pdf](http://www.finance.gov.au/publications/fmg-series/docs/FMG_16.pdf)> [accessed 1 December 2012].

<sup>43</sup> Department of Finance and Deregulation, *Australian Government Property Occupancy Report 2009*, Commonwealth Property Review Branch, Canberra 2010, p. 65.

<sup>44</sup> PRODAC reporting requirements are available from <[www.finance.gov.au/property/property/property-data-collection.html](http://www.finance.gov.au/property/property/property-data-collection.html)> [accessed 22 February 2013].

<sup>45</sup> These committees are discussed in the Department of Finance and Deregulation's *Overview of the Commonwealth Property Management Framework*, available from <[http://www.finance.gov.au/property/property/overview\\_cpmf/docs/overview\\_of\\_the\\_cpmf.pdf](http://www.finance.gov.au/property/property/overview_cpmf/docs/overview_of_the_cpmf.pdf)> [accessed 1 December 2012].

and implementation of the Property Framework, and voice their views on property management from a decision-making level; and

- a second, more senior IDC at Deputy Secretary level that provides a high-level strategic focus for the management of Australian Government office accommodation.

**1.20** In addition to the IDCs, Finance hosts a forum for operational staff to facilitate interagency communication and advice in regard to property management. All FMA Act agencies are welcome to attend this forum and membership of the IDCs is a subset drawn from these agencies. The senior IDC meets biannually, and the Assistant Secretary IDC and the forum meet quarterly, or as required. Finance advised that the IDCs and forum are well-attended, including by representatives of the ATO.

## **The ATO's property objectives and management arrangements**

**1.21** Property management relates to the effective operation of an agency's workplace and infrastructure and co-ordination with its business activities, employees and stakeholders. Better practice property management, as outlined in the guidance documents issued by Finance (the Property Guidelines and Planning Guidance) includes that agencies are expected to:

- set property objectives. Property objectives should be determined by the agency after taking into account the functions and business needs of the agency, the purpose and use of each property, all relevant government policies and other planning and management issues facing the agency; and
- establish internal procedures to facilitate effective property planning and management. The procedures should reflect the nature of the agency and its property needs, and may include formal communication mechanisms to coordinate:
  - property management activities within the agency, including scheduled meetings with senior executives in key functional areas; and

- property solutions across the portfolio or with other agencies.<sup>46</sup>

**1.22** Efficient and effective property portfolio management also requires a comprehensive strategic planning process. Strategic planning necessitates both a ‘top down’ and ‘bottom up’ flow of data and information. At the highest level, the strategic property plan should establish overall objectives that incorporate the type of property, its location, term of occupation and level of maintenance. These property objectives interrelate with the business planning process, as it is the business plan which sets the organisation’s service objectives.

## **Property objectives**

**1.23** The ATO has no single authoritative expression of its property objectives. The objectives are referred to in different planning documents, including the ATO’s:

- *Property Management Services Contract 2012–17*, which refers to an ‘overarching strategy of rationalising space and moving to purpose built facilities’<sup>47</sup>; and
- *Annual Plan 2012–13*, which refers to the development and implementation of a progressive property strategy (based on the ATO’s Location Plan).

## **Property management arrangements**

**1.24** The management arrangements for the ATO’s property portfolio have evolved in recognition of the Property Framework and associated guidance. These arrangements are centred around: the services delivered under contract by an external property management services provider; functions undertaken by the ATO’s Property, Security and Environmental Services (PS&ES) branch; the ATO’s National Accommodation Forum; and the Environmental Management Committee.

### ***Outsourced property management services***

**1.25** The ATO’s first property management services contract, valued at \$8 million<sup>48</sup>, covered the period 1999–2004, and included a relatively narrow

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<sup>46</sup> Department of Finance and Deregulation, *Property Management Planning Guidance*, January 2012, section 3.

<sup>47</sup> ATO, *Property Management Services Contract, 2012–17*, p. 207.



range of services (in comparison to the services delivered under subsequent contracts) covering lease administration, bill paying, building inspections and routine maintenance.<sup>49</sup> The services provided were expanded in the second contract, valued at \$22.1 million to include almost all aspects of property management, from the delivery of cleaning services to the management of complex capital work projects. The contract ran from 2004–12, with two extension options exercised.<sup>50</sup>

**1.26** Following an approach to the market in June 2011, the ATO entered into a third contract (with the same provider that delivered services under the first two contracts) for the period 2012–17, with two, two-year extension options available. The current contract, valued at \$17.2 million for the first five years, further expands the provision of services to support property planning and the ATO's reporting obligations to government.

### *Property, Security and Environmental Services branch*

**1.27** The PS&ES branch sits within the ATO's Finance business line, and is part of the ATO's Corporate Services and Law sub-plan.<sup>51</sup> Previously referred to as the Property and Security Services branch, responsibility for environmental management—energy, water and waste management—was included in the responsibilities of the branch in 2010.

**1.28** As at December 2012, the branch had 162 staff working from 23 ATO offices across Australia. It has a total operating budget of over \$286 million in 2012–13, consisting of: \$263.2 million for property operating expenses<sup>52</sup>; staffing costs of \$16.9 million; and supplier costs of \$6.6 million (including costs associated with the outsourced property services contract). Budgeted property operating expenses represent 7.6 per cent of the ATO's operating expenditure of \$3.45 billion for 2012–13, in line with previous years' expenditure.

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<sup>48</sup> The ATO's property management services contracts are complex procurement arrangements that include: fixed and variable fees; 'pass through' expenses that the provider pays on behalf of the ATO; and contract extension options. The reported value of these contracts has varied, subject to the components of the contract that are included in the total value. Reporting of the value of the ATO's property management contract is discussed further in Chapter 4.

<sup>49</sup> ATO, *Australian Taxation Office Services Contract CS 101/98* [1999–2004], Schedules, p. 51.

<sup>50</sup> The extension options ran from 2008–10 and 2010–12.

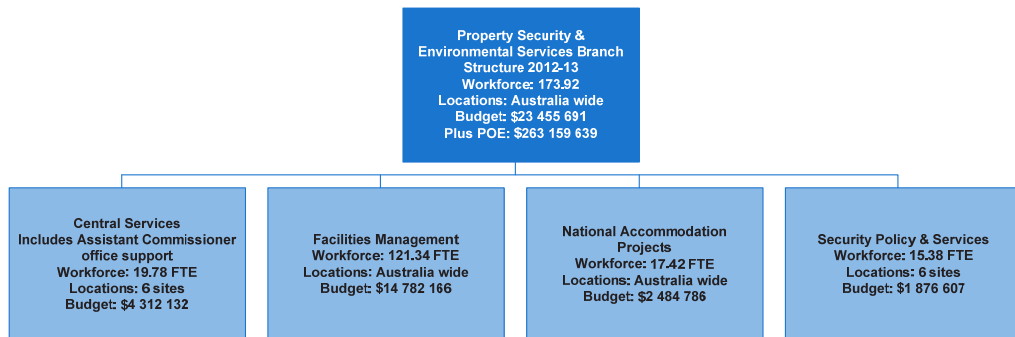
<sup>51</sup> The organisational structure of the ATO is reflected in four sub-plans: Enterprise Solutions and Technology; Compliance; Operations; and Corporate Services and Law.

<sup>52</sup> ATO, *Property, Security & Environmental Services Branch Plan 2012–13*.

**1.29** The branch provides a range of site or office based services across all ATO locations and, through an established contract management framework<sup>53</sup>, works closely with the contracted property management services provider on all aspects of the ATO's property portfolio. The structure of the branch as at December 2012 is set out in Figure 1.1.

**Figure 1.1**

**Structure of the Property, Security and Environmental Services Branch as at December 2012**



Source: ATO, *PS&ES Branch Plan 2012–13*.

**1.30** Services provided by each area of the branch include:

- *Central Services*: has primary responsibility for the management of the property services contract, and supports the professional operation of the branch across all accommodation requirements, including leasing arrangements and environmental management initiatives;
- *Facilities Management*: delivers daily management activities in all ATO sites and facilities, including the provision of site security services, and manages the ATO fleet;
- *National Accommodation Projects*: has responsibility for managing the ATO's long-term infrastructure needs, including major refits; and
- *Security Policy and Services*: develops strategic physical security policy and advice for all ATO premises, and delivers a range of security advisory, awareness and assurance services across the ATO.

**1.31** In June 2012, the PS&ES branch also established a Change Advisory Board to support the accuracy, currency and consistency of core property

<sup>53</sup> The contract management framework is discussed in Chapter 3.

documents.<sup>54</sup> These documents set out important information, operational standards and procedures for the ATO's property portfolio, and support property planning and decision making. The Board is chaired by the Assistant Commissioner, PS&ES branch, and includes ATO and the external services provider staff.

### *National Accommodation Forum*

**1.32** Governance arrangements supporting the management of the ATO's property portfolio are provided through the Finance business line, and by members of the National Accommodation Forum (NAF). The forum was established in 2009 and the first charter, setting out members' responsibilities to consider and make recommendations on leasing and office accommodation policy, was finalised in June 2010. The NAF is comprised of senior executive staff from across the ATO.

**1.33** In October 2010, members of the forum supported a proposal to establish an operational working group. This group would meet fortnightly to manage accommodation issues on a day-to-day basis, complementing the work of the forum and escalating any unresolved or more complex issues for forum members' consideration. The NAF Charter was reviewed and updated in October 2012, reflecting a broader strategic role for the forum, and more clearly differentiating the roles of the forum and the working group.<sup>55</sup>

### *Environmental Management Committee*

**1.34** Established in February 2011, the Environmental Management Committee (EMC) was formed to develop and implement the ATO's environmental initiatives, and includes representatives from across the ATO, including the ATO's procurement branch. An EMC Charter was developed and subsequently endorsed by the ATO Executive in March 2013.

**1.35** Endorsement of the Charter established the EMC as a formal sub-committee of the ATO Executive, providing organisational status to the committee and strengthening its capacity to deliver environmental strategies and initiatives across the agency. Initially chaired by the Assistant Commissioner, PS&ES branch, following formal endorsement the EMC is now chaired by one of the ATO's Deputy Commissioners.

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<sup>54</sup> The operation of the Change Advisory Board is discussed further in Chapter 3.

<sup>55</sup> ATO, *National Accommodation Forum Charter*, October 2012. The charter is further discussed in Chapter 2.

## The Australian commercial property market

**1.36** As previously noted, the ATO has a large property portfolio that includes offices in major cities and regional outlets across all states and territories. The government policy that generally results in agencies leasing rather than owning property requires the ATO, as with the majority of Australian Government entities, to compete for good quality office space in the Australian commercial property market.

**1.37** The Australian commercial property market is well-developed and highly specialised, with around 70 per cent of investment grade offices held by large investment trusts. These markets can be expensive; office rents in some central business districts ranking in the top 10 globally.

**1.38** Australia has a mature sustainable building agenda and is widely recognised as an authority in green building and sustainable development. Environmental initiatives, such as the statutory requirements to disclose the energy rating of larger office buildings, have resulted in a market with a growing demand for 'sustainable' buildings in which government agencies, including the ATO, compete for available space through applying their sustainability targets.<sup>56</sup>

**1.39** Like most markets, the commercial property market is cyclical, in which rents, yields and available space fluctuate. Property is widely recognised to lag the broader economic cycle, largely due to the long time scale of property development. A key measure of the market is the level of vacant office space; a four to five per cent vacancy rate in available commercial property being seen as a neutral stage of the cycle.

**1.40** Outside of the major CBD market in Australia, the situation is somewhat different, as most development is of a smaller scale. Where larger developments for the public sector do occur, they tend to represent a significant proportion of the available space within a regional market. This situation brings with it greater risks for both the tenant and landlord. At the end of a lease, the landlord has much less certainty that a new tenant can be found and, consequently, rents and lease terms need to reflect this added risk. The regional property market is an important consideration for government

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<sup>56</sup> Australasian Procurement and Construction Council 2012, *National Green Leasing Policy*, and Council of Australian Governments (COAG) 2009, *National Strategy on Energy Efficiency*.

agencies, including the ATO, where the requirement to maintain services may outweigh consideration of the commercial costs involved.

**1.41** Similarly, tenants without lease options are more vulnerable as they have less certainty of securing a new lease agreement at a reasonable rent level. It is important that an organisation's property manager monitors the wider market in order to gauge future movements, and how these might impact the assets held. The requirement for Commonwealth agencies to develop a property management plan goes some way to supporting agencies' capacity to anticipate market changes and how these would impact on property costs.

**1.42** The majority of commercial buildings are occupied on lease agreements with institutional investor landlords, such as property trusts. The typical lengths of leases are influenced by the market cycle, in which landlords seek longer terms when market conditions favour them. The length of initial leases has been diminishing in recent years, with most tenants seeking five or 10 year terms with an option to renew for a further five or 10 years.<sup>57</sup>

## Previous ANAO property management audits

**1.43** The ANAO has previously undertaken two cross-portfolio performance audits of the management of Commonwealth properties:

- Audit Report No. 53 2000–2001 *Commonwealth Management of Leased Property* assessed whether agencies had managed their leased offices effectively, and developed a series of benchmarks to assist in the management of property management reporting; and
- Audit Report No.19 2003–04 *Property Management* assessed whether agencies were performing the property management functions efficiently and effectively.

**1.44** Both of these audits highlighted the need for agencies to improve aspects of their property management functions, with specific recommendations on agencies' processes for property planning, and monitoring and reporting of property-related activity. The 2000–01 *Commonwealth Management of Leased Property* audit also recommended that

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<sup>57</sup> Advice provided to the ANAO by Dr Clive Warren, December 2012.

organisations develop formal processes for managing the performance of all contractors providing property related services.<sup>58</sup>

## Audit objective, criteria and methodology

**1.45** The objective of the audit was to assess the effectiveness of the ATO's management of its property portfolio. In particular, the ANAO examined whether the ATO's:

- property management arrangements supported the agency's property objectives and business requirements;
- external contract for the provision of property management services reflected the ATO's property management arrangements; and
- contract management framework provides assurance that the property portfolio is being effectively managed.

**1.46** The ANAO interviewed relevant ATO staff, examined documentation and reports, and undertook fieldwork at several ATO offices.<sup>59</sup> Finance was consulted in relation to the Australian Government's property management and procurement policies, and advice was sought from a property expert to provide broader contextual background to the Australian commercial property market and property management issues.<sup>60</sup>

**1.47** The audit was conducted in accordance with the ANAO Auditing Standards at a cost of approximately \$360 000.

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<sup>58</sup> The ATO was not included in either of these cross-portfolio audits, although the agency responded to a survey undertaken on property-related matters in the 2000–01 audit.

<sup>59</sup> The ANAO visited ATO offices in Melbourne, Brisbane and Canberra.

<sup>60</sup> Dr Clive Warren, BSc (Hons), MProjMan, PhD Qld, FRICS, FAIPM, AAPI is an Associate Professor, Property and Project Management, at the University of Queensland Business School.

## Structure of the report

**1.48** Figure 1.2 sets out the structure of the report, reflecting the audit criteria outlined in paragraph 1.45.

**Figure 1.2**

### Report structure

Chapter	Chapter overview
2. Property Management and Planning	Examines the ATO's property management arrangements supporting the agency's property objectives and business requirements.
3. Administration of Property Management Services Contracts	Examines the ATO's arrangements for administering the property management services contracts.
4. Contract Payment Arrangements	Examines the ATO's arrangements for the payment of fees and charges under the property management services contracts, and the ATO's compliance with AusTender reporting of the contracts.

## 2. Property Management and Planning

*This chapter examines the ATO's property management arrangements supporting the agency's property objectives and business requirements.*

### Introduction

**2.1** Recognition of the importance of sound property portfolio management for commercial and public sector entities has significantly increased in recent years. Property can represent a large proportion of an organisation's annual expenditure, typically second only to staffing costs and, as such, warrants appropriate management attention. Property plays an important role in supporting the delivery of an organisation's services, and proper planning can enhance the quality of the property support provided, contributing to the efficiency and effectiveness of the organisation.

**2.2** Strategic property management brings together the inter-relationships between key corporate planning activities and property management, allowing an agency's strategic goals to be integrated with property management and to support the agency's program delivery requirements.<sup>61</sup> High-level deliverables for the ATO's property portfolio are set out in the ATO's annual plans. The *ATO Annual Plan 2012–13* states that the ATO's aim is to provide:

... appropriate and sustainable accommodation that delivers a dynamic and sustainable work space, fosters a productive working environment, promotes proper administrative practices and supports business needs.

To achieve these objectives, the annual plan states that the agency will develop and implement 'a progressive property strategy based on the approved ATO Location Plan'.<sup>62</sup>

**2.3** The ATO's planning process is linked through a series of planning documents. The ATO's annual plan details the agency's key deliverables for the year ahead, providing direction for business service line plans, that flow through to performance agreements between individual staff and their managers. In effect, the planning documents should provide line-of-sight between the ATO's corporate objectives, including for the agency's property

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<sup>61</sup> ANAO Better Practice Guide: *Strategic and Operational Management of Assets by Public Sector Entities*, September 2010, pp. 7 and 13.

<sup>62</sup> ATO, *ATO Annual Plan 2012–13*, p. 70.



portfolio, and the roles and responsibilities of business lines, branches, teams and employees in achieving those objectives.

**2.4** To assess the effectiveness of the ATO's property management and planning to support the agency's property objectives, the ANAO examined the ATO's:

- development of a property management plan (or strategy);
- arrangements supporting property management and planning;
- development of a location plan (or strategy) and the maintenance of core property documents that set out property-related operational standards and procedures; and
- mechanisms for monitoring and reporting property-related performance.

## Development of a property management plan

**2.5** As previously noted, the ATO's planning processes supporting property management were not well developed prior to 2009, and the agency did not have a property management plan. The services delivered under the ATO's property management services contracts to 2012 were also affected by a lack of planning. Contract reviews undertaken at key milestones in the contract (and discussed further in Chapter 3) identified shortcomings in the ATO's strategic property planning, resulting in a lack of direction and guidance for the services provider on aspects of the management of the ATO's property portfolio.

**2.6** In mid-2010 the ATO was required to develop a property plan in response to the Property Framework, which required all agencies subject to the FMA Act to have a property management plan in place by 1 October 2010. Finance did not mandate the form or content of the plan, but issued guidance (the Property Guidelines and the Planning Guidance) and advised agencies to treat the plans as 'dynamic and flexible documents that can be adapted to support Government initiatives and agency objectives'.<sup>63</sup> The aim of the plan was to:

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<sup>63</sup> Department of Finance and Deregulation, *Property Management Planning Guidance*, January 2010, paragraph 2.2.

- support the achievement of short, medium and long term property objectives; and
- assist in demonstrating the efficient, effective and ethical use of Commonwealth resources.<sup>64</sup>

2.7 In effect, a well-structured and up-to-date property management plan should support an agency's operational and business needs, while meeting high-level government requirements concerning the use of property.

## The property management plan

2.8 The ATO's *Property Management Plan (2010)* was the agency's first attempt at developing an enterprise-wide, strategic approach to property management and planning. The ATO sought support from an external consultant as the necessary skills to develop the plan were not available within the agency.<sup>65</sup>

2.9 The plan was submitted to Finance on 25 October 2012, and sets out: requirements to meet government directives on environmental standards for energy, water and waste management; options for shared services arrangements between Australian Public Service (APS) agencies<sup>66</sup>; and occupational density targets. It also reflects how new service delivery models may impact on the ATO's longer-term demand for office space. For example, improvements in information technology and the ATO's online business model<sup>67</sup> could reduce the amount of office space required over the longer term; and the impact of the ATO's commitment to maintain a regional presence, and 'retail' or shopfront outlets<sup>68</sup> needs to be factored into office leasing decisions.

2.10 To meet Finance's directive, the ATO developed the *Property Management Plan (2010)* over a few weeks, and in isolation of the ATO's corporate planning processes. Additionally, the ATO's stated intent to review

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<sup>64</sup> Department of Finance and Deregulation, *Commonwealth Property Management Guidelines, Financial Management Guidance No. 16*, Canberra, October 2009, p. 5. [Internet] available from <[http://www.finance.gov.au/publications/fmg-series/docs/FMG\\_16.pdf](http://www.finance.gov.au/publications/fmg-series/docs/FMG_16.pdf)> [accessed 1 December 2012].

<sup>65</sup> Commissioner of Taxation, *Annual Report, 2010–11*, p. 210.

<sup>66</sup> Shared services arrangements are where APS employees work from another agency's premises. As at December 2012, the ATO provided services from eight Department of Human Services (Centrelink) customer service centres.

<sup>67</sup> The ATO's online business model is aimed at increasing the services the ATO provides electronically, and encourages people to engage with the ATO through online and web-based access.

<sup>68</sup> ATO Shopfronts provide a limited ATO service where members of the community can: speak to ATO staff in a face-to-face environment; collect a range of publications and brochures; and provide a phone and direct web link to access ATO information and services. As at December 2012, the ATO supported 12 ATO Shopfronts nationally.

the plan within a month—to align with the ATO’s broader corporate planning cycle, and annually thereafter—has not occurred. This alignment, in keeping with better practice in strategic property planning, would have provided direction for the management of the agency’s property portfolio through the corporate and business objectives set out in the ATO’s annual plan, and to relevant business line and team plans for that year.

**2.11** The ATO advised the ANAO that a later decision taken by the ATO Executive determined that the *Property Management Plan (2010)* would be reviewed every two years, scheduling the updated version of the plan for inclusion in the ATO’s 2012–13 corporate planning cycle. In December 2012, the ATO further advised that a review of the plan was underway, (as reflected in the ATO’s *Annual Plan, 2012–13*), but had not been completed. On this schedule, the ATO’s property management plan will not be aligned with the corporate planning cycle until 2013–14 at the earliest.

**2.12** The task of developing the agency’s first strategic property plan prompted the ATO to review its arrangements for property management and planning, recognising the need for a more comprehensive and rigorous approach that aligned with the ATO’s corporate planning processes. Commencing in 2009–10, the ATO has implemented initiatives to better manage the agency’s large property portfolio, with some still being implemented in 2012–13. These initiatives include improved planning processes and the provision of more accurate and detailed information on the property portfolio to support the planning process and to strengthen the ATO’s property monitoring and reporting capability.

## Arrangements supporting property management

**2.13** As previously noted, arrangements to manage the ATO’s property portfolio involve the: Property, Security and Environmental Services branch; National Accommodation Forum; and Environmental Management Committee.

**2.14** While the ATO has outsourced property management services since 1999 (as is discussed in Chapter 3), the role and functions of the Property, Security and Environmental Services branch reflect recent changes in the ATO’s approach to the management of its property portfolio. The National Accommodation Forum and Environmental Management Committee are new mechanisms in the ATO’s administrative arrangements.

## Property, Security and Environmental Services branch

**2.15** The Property, Security and Environmental Services (PS&ES) branch provides a range of property related services, as outlined in Figure 1.1, but responsibility for managing the ATO's property portfolio extends across the agency. The branch also has primary responsibility for managing the property management services contract and the standard of services being delivered.

**2.16** The structure of the PS&ES branch (as shown at Figure 1.1) has not changed in recent years, although the branch's responsibilities were expanded in 2010 to assume responsibility for the ATO's environmental measures. The PS&ES branch plans for the period 2009–10 to 2012–13 reflect changes to the roles and functions of the branch. Specifically, the branch has sought to raise the profile of property management broadly across the ATO, to redefine the branch as a business partner within the agency, and to promote managers' responsibilities for property costs. Rather than viewing property costs as a fixed expenditure, managers are required to consider costs and possible cost savings when undertaking resource and operational planning.<sup>69</sup>

**2.17** The ATO advised the ANAO that the branch adopts an internal customer-focussed perspective by delivering property outcomes for the business; and, at an operational level, through facilities management and workplace services. The *PS&ES Branch Plan 2012–13* states that the branch will:

... shift our approach from reactive to proactive by designing solutions for issues that our staff haven't seen yet. We will work more closely with site leaders to know what's happening at a local level. We will do more work to understand ATO business by asking more questions. Together, we can make our support of business the most recognised and respected service delivery in the ATO.<sup>70</sup>

**2.18** The branch has also contributed to the development of the National Accommodation Forum and the Environmental Management Committee to support property management and planning.

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<sup>69</sup> The ATO referred to the development of a conference centre in an underused area in one of the ATO's leased building in Canberra as an example of how property management can contribute to cost savings. The Conference Centre was opened on 20 November 2012, catering for up to 250 people. The centre has been in constant use for internal ATO conferences and external events, providing savings on the hiring of external venues.

<sup>70</sup> ATO, *PS&ES Branch Plan 2012–13*, key messages.

## National Accommodation Forum

**2.19** The National Accommodation Forum (NAF) was established in 2009<sup>71</sup>, in the absence of an existing formal planning forum or committee, to: strengthen the links between the ATO's business requirements and the property portfolio; and direct and support the work of the branch and property management more broadly. The NAF includes senior executive officers from across the ATO. The forum is one of four sub-committees the Corporate Services and Law Sub-plan Executive has established to assist it in managing the business of the sub-plan<sup>72</sup>, each with its own charter setting out the committee's terms of reference and membership.<sup>73</sup>

**2.20** Each sub-committee, with the exception of the NAF, is chaired by the responsible sub-plan Deputy Commissioner. The chair of the NAF is rotated through each sub-plan Deputy Commissioner, to provide greater visibility of the ATO's property portfolio and to highlight the agency-wide implications of property decisions. Over the first 12 months of operation, NAF members (supported by the PS&ES branch executive) developed the forum's roles and responsibilities, finalising a charter in June 2010. Terms of reference set out in the charter include that the NAF will:

- address accommodation issues escalated from routine accommodation processes;
- manage accommodation matters with a corporate focus aimed at optimum enterprise outcomes; and
- be the focal point for accommodation policy, process and data management conformance for the sub-plans.<sup>74</sup>

The charter was updated in June 2011, reflecting minor refinements to the role and function of the forum, and to include the establishment of a lower-level property working group to deal with day-to-day operational issues.

**2.21** Minutes of the 24 NAF meetings that occurred during the period July 2009 to May 2012 were reviewed by the ANAO and reflect discussion on a

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<sup>71</sup> The ANAO's review of NAF documentation includes references to the forum in 2008, but there is no available record of NAF meeting prior to 2009. The ATO was unable to confirm exactly when the NAF was formed, and there is no charter or terms of reference prior to 2010.

<sup>72</sup> The sub-committees are the: People System Sub-committee; Corporate Services and Law Information Technology Sub-committee; National Accommodation Forum; and the Environment Management Committee.

<sup>73</sup> ATO, *Corporate Services and Law Sub-plan Executive Charter*, 20 August 2012.

<sup>74</sup> ATO, *NAF Charter*, June 2011.

range of property matters, in keeping with the roles and responsibilities of the forum. However, members' primary focus was the use and allocation of office space and workpoint allocations to the ATO's business lines. NAF members reviewed and compared office vacancy rates from month to month, and considered business cases submitted to them for additional accommodation.

**2.22** In effect, the NAF's primary concern during this period was to apply measures supporting the efficient and cost-effective allocation and use of office space by brokering outcomes between competing demands, and promoting a new enterprise-wide approach to office utilisation. The ATO advised the ANAO that the operation of the forum resulted in a rationalisation of office space, reducing overall occupancy costs and contributing to savings of \$9.1 million in 2011–12. These savings consisted of the recovery of rental amounts where the ATO had decided to vacate sub-leased premises, based on NAF analysis of office space and utilisation. The ATO advised that the savings include: \$6.5 million in rent; \$1.4 million in staff car parking facilities; and \$1.2 million from previous years.

**2.23** The NAF Charter was again updated in October 2012, to support changes in the forum's operation. Commencing in 2013, the forum will have a more strategic role, providing planning advice and direction to the ATO Executive on property matters.<sup>75</sup> Under the new charter, the NAF will provide executive level co-ordination of the ATO's property function, and develop and review the agency's *Property Management Plan (2010)*. Reflecting this more strategic focus, NAF meetings will be held quarterly rather than monthly, with operational issues continuing to be managed through the monthly meetings of the working group.

**2.24** The first meeting of the NAF under the new (draft) charter was held on 19 September, 2012. In keeping with the NAF's strategic focus, minutes of the meeting reflect discussion on potential changes to work and workplaces in the next five to 10 years, new technology options, and the opportunities and challenges these changes will present to the ATO.

### ***Executive reporting***

**2.25** In addition to the executive focus on property management and planning provided by the NAF, commencing in 2013 the ATO Second

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<sup>75</sup> ATO, *NAF Charter*, June 2011, p. 5.

Commissioner with responsibility for law practice, corporate governance, people and resource management, has requested quarterly reports from the NAF. The first of these reports, produced in March 2013, provides:

- a summary of office accommodation by each of the ATO's four sub-plans, and the trend in vacancy rates over the previous 12 months;
- the ATO's performance against the Government's office density target (highlighting the five offices where office density most exceeds the target); and
- lease costs by site and sub-plan, and the cost per workpoint and by vacant workpoint.

**2.26** This new report will provide the ATO Executive with key information on the agency's property portfolio, and will complement the information contained in meeting minutes and reports provided by the newly structured NAF.

## **Environmental Management Committee**

**2.27** The Environmental Management Committee (EMC) was established in February 2011, and reflects the increasing focus on agencies' environmental footprint, and government targets and reporting requirements. Commencing in 2012–13, agency CEOs are required to include environmental measures in their agency's annual reports.<sup>76</sup> As at April 2013, voluntary environmental targets for travel, emissions, paper use and waste management were being considered by the ATO Executive.

**2.28** Minutes from the first meeting of the EMC (9 February 2011) reflect that the establishment of the forum was supported by the ATO Executive in December 2011, to highlight opportunities and make recommendations on where to invest time, money and effort (on environmental initiatives), with a specific request to report on the ATO's carbon footprint. As previously noted, an EMC Charter was subsequently endorsed by the ATO Executive in March 2013, establishing the EMC as a formal sub-committee of the ATO Executive, providing organisational status to the committee and strengthening its capacity to deliver environmental strategies and initiatives across the agency.

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<sup>76</sup> Department of the Prime Minister and Cabinet, *Requirements for Annual Reports*, updated 28 June 2012.

**2.29** Minutes of the 10 EMC meetings that have been held since the committee was established<sup>77</sup> reflect recurring issues addressed by the committee, including:

- the procurement of services that will assist the ATO in minimising its carbon footprint;
- requests for updates on the EMC Action Plan;
- actions to minimise waste, including the reduction of paper use by the ATO; and
- the development of a strategy to promote and support ATO Green Teams.

### **Location Plan and other core property documents**

**2.30** The ATO's core property documents set out operational standards and procedures for the ATO's property portfolio. The documents deal with key aspects of property management as they contain data and information on the ATO's property portfolio, and are key components in an overarching property management plan, supporting higher-level planning and day-to-day operational decision-making. The core property documents listed in the *Property Management Plan (2010)* are the ATO's:

- location plan: provides direction for ATO staff and stakeholders by detailing the site locations from which the ATO will be delivering business, up to five years in advance;
- lease plan: captures all lease information and is used as a trigger to assess and review upcoming lease renewals;
- capital works plan: sets out capital works items to be delivered over the coming financial years based on information in the ATO location plan; and
- five briefs: set standards and procedures for the ATO's property portfolio including for new buildings or refit programs, and requirements for security, fit-out specifications, and acoustics.<sup>78</sup>

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<sup>77</sup> The EMC has met at irregular intervals since it was established, convening on five occasions in 2011 and four in 2012. The EMC most recently met on 20 February 2013.

<sup>78</sup> ATO *Property Management Plan*, October 2010, Section 7, Accommodation Manual.



### *Location plan*

**2.31** In 2008–09, the ATO did not have a location plan (or strategy) but recognised the need to develop one. A large number of ATO leases expired in the period 2006–09 and the absence of longer-term planning compromised business continuity and exposed the agency to market risk.<sup>79</sup>

**2.32** The following year, the ATO's *Annual Plan 2009–10* set out the corporate priority 'to settle the ATO Location Strategy'. To achieve this, the ATO would:

- engage with sub-plans to deliver property services that support or meet business needs; and
- develop the ATO location strategy based on sub-plan workforce plans.

**2.33** The ATO's *Location Plan 2015–2020*<sup>80</sup> was developed, endorsed by the ATO Executive in September 2009, and included in the ATO's *Property Management Plan (2010)*. The location plan was updated the following year, and endorsed by the ATO Executive on 12 October 2010, covering the shorter period of 2011–16.

**2.34** The document was reviewed in 2011 for the period 2012–17, but the draft of this plan was not endorsed by the ATO Executive as it was assessed as not appropriately reflecting the Executive's position regarding the ATO's regional presence. While not endorsed, the document was used in planning activities for property and accommodation in preparation for the 2012–13 update.<sup>81</sup>

**2.35** Subsequently, a later plan, the *ATO Location Plan 2013–14*, was endorsed by the ATO Executive on 7 March 2012. The revised timeframe is to align the plan with the ATO's Enterprise Agreement that came into effect on 11 November 2011, with a nominal expiry date of 30 June 2014.

**2.36** The completed location plans (or strategies) developed from 2009–10 to 2011–12 are presented in different formats, and each update provides more

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<sup>79</sup> Landlords monitor the weighted average lease expiry (WALE) of their buildings in order to identify periods of high-risk exposure to the market. A low WALE means that in an expanding market, space can be at a premium with low vacancies and consequently very high rents. Managing its property portfolio by spreading the lease terminations over a long period allows an organisation to take advantage of market cycles.

<sup>80</sup> The ATO refers to a location plan and a location strategy. The first plan covered a period up to ten years in advance, while the most recent plan, developed in 2012, covers only one year in advance.

<sup>81</sup> ATO, *Executive Submission Paper, location plan [strategy] and accommodation decision required*, 15 December 2011, p. 1.

comprehensive data and information on the ATO's property portfolio. The overview of the most recent version of the plan, the *ATO Location Plan 2013–14*, states that the plan:

... provides direction and certainty for business and stakeholders by articulating the site locations from which the ATO will be delivering business through until 2014.

... forms part of our overarching Property Management Plan, required by the Department of Finance and Deregulation. This integrates elements of location, capital works, environment and security and provides guidance for future decisions concerning our acquisition and management of office accommodation.

... is part of the annual corporate planning cycle to ensure accuracy and relevance to workforce management approaches.

**2.37** The location plan provides information on: the number of workpoints used by each ATO sub-plan, in each state and territory; the number forecast for each of the next four years; and lease expiry dates on the majority of the ATO's properties. Essentially, the two-page document is a snapshot of the ATO's properties and use of workpoints.

**2.38** The ATO advised the ANAO that developing the location plans (or strategies) in recent years has promoted improved property planning. Business managers are required to consider and plan their accommodation needs up to five years in advance (with the exception of the *Location Plan 2013–14*), as part of the ATO's annual corporate planning cycle; with the NAF managing the allocation of, and changes to, the ATO's property 'footprint'.

**2.39** The ATO also advised the ANAO that the review and updating of the location plan is aligned with the ATO's annual corporate planning cycle, and the next update will also incorporate elements of the ATO's new Enterprise Agreement. However, it is the *Property Management Plan (2010)* that the ATO refers to as providing guidance for future decisions concerning the ATO's acquisition and management of office accommodation. Conversely, the Location Plan is referred to in the ATO's *Annual Plan 2012–13* as the base from which the strategic property plan would be developed and implemented.

**2.40** The linkages and dependencies between the ATO's *Property Management Plan (2010)* and its annual location plans could be more clearly defined. A comprehensive property plan should provide strategic direction for an entity's property management and planning, including its location plan. The ATO's property management services contract 2012–17 (further discussed

in Chapter 3), provides some corporate level direction for the ATO's property portfolio, referring to an 'overarching strategy of rationalising space and moving to purpose built facilities'.<sup>82</sup> However, no overarching strategy is defined in either the Location Plans or *Property Management Plan (2010)*.

### *Core property documents*

**2.41** Core property documents provide a range of property-related information and set standards and procedures for the ATO's property portfolio, including for new buildings or refit programs, and requirements for security, fit-out specifications and acoustics. While the ATO has developed and updated its location plan, at the beginning of 2012–13 the other core property documents listed in the *Property Management Plan (2010)*<sup>83</sup> required attention.

**2.42** The ATO's lease plan, capital works plan and five supporting briefs were not version controlled, and it was not clear that changes included in the document reflected the most up-to-date information or relevant building standards.<sup>84</sup> In recognition of the importance of maintaining the quality and accuracy of these documents, in September 2012 the ATO established the Change Advisory Board (CAB), whose membership includes PS&ES branch and service provider staff.

**2.43** Under the CAB Charter, members have primary responsibility for proposing and reviewing changes to core property documents as well as assessing, from the data included in these documents, that the ATO is achieving industry best practice and national consistency in building and fit-out standards.

**2.44** The charter includes that the CAB will meet on a quarterly basis each year, and the CAB program of work has scheduled regular reviews of each of the core supporting documents and briefs, to be undertaken between August 2013 and April 2015.<sup>85</sup> The minutes of the third meeting of the CAB, (held on 12 March 2013), state that the CAB Charter would be updated to include changes to the timing of document reviews (to complete the reviews more quickly), with additional funds available to support the use of external consultants to assist, if required. As at March 2012, 12 of the 16 core documents

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<sup>82</sup> ATO *Property Management Services Contract, 2012–17*, p. 207.

<sup>83</sup> ATO, *Property Management Plan*, October 2010, Section 7, Accommodation Manual.

<sup>84</sup> The ATO advised that the specifications in the briefs had been used for its last four property projects, although the documents may not have included the most relevant and up-to-date standards.

<sup>85</sup> Change Advisory Board, *Charter*, June 2012.

examined by the CAB had the frequency of review confirmed (the frequency of review required for each document varies between once a year once every three years), and these reviews were up-to-date. For the other four documents<sup>86</sup>, the required frequency of reviews, the dates the documents were last reviewed, and when the next review was scheduled, were outstanding.

## Monitoring and reporting

**2.45** In developing the *Property Management Plan (2010)*, the ATO identified the need for improved data and information on key aspects of the agency's property portfolio, in order to strengthen its property planning, monitoring and reporting capabilities.<sup>87</sup> Specifically, recommendations in the plan included that the ATO:

- collect workpoint demand forecasts to indicate any potential changes or fluctuations in the number and location required. The capacity to accurately capture and report data on workpoint use and vacancies would maximise occupational density and reduce costs; and
- provide summary information on each property via individual property plans. These plans would assist with the ATO's location and lease decisions.

## Workpoint management

**2.46** The ATO's *Accommodation Management CMPI* (Corporate Management Procedures and Instructions) 2005/22/01 sets out the ATO's policy regarding the allocation and management of workpoints, and lists three records that support accommodation management. The records are in the form of two spreadsheets and information recorded in the ATO Staff Directory. The spreadsheets are the:

- Agreed Footprint Allocations Register spreadsheet that records all business service line footprint allocations and unallocated workpoints nationally; and

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<sup>86</sup> The four core documents are: *Minimum building performance standards*; *Overview of Security Brief*; *Overview of Computer Room Brief*; and *Overview of Structured Cabling Brief*.

<sup>87</sup> ATO, *ATO Property Management Plan*, October 2010, p. 18.

- Allocation Changes Register spreadsheet that records the details, status and approval of each business service line footprint application and unallocated workpoints, nationally.

The ATO Staff Directory is an accommodation management system that records the ‘ownership’ of a particular office space or workpoint—the business service line the space is allocated to; and its ‘occupancy’—the staff member currently using the workpoint.<sup>88</sup>

**2.47** To support accuracy of the data, each of the four ATO sub-plans appoints a National Accommodation Co-ordinator, with responsibility for encouraging staff to maintain up-to-date staff directory entries. These coordinators also conduct a monthly reconciliation (for staff within their sub-plan) between the Agreed Footprint Allocations Register, the ATO Staff Directory, staff numbers generated by the ATO’s human resource management system and payroll data. The results of the reconciliation are sent to the PS&ES branch for ATO-wide consolidation, and to address any discrepancies.<sup>89</sup>

**2.48** While the spreadsheets allow the ATO to keep track of the use and allocation of workpoints, they have limited usefulness as a planning tool. To better capture office utilisation data and to support improved planning, in June 2011 the ATO implemented a new computer based accommodation planning system<sup>90</sup>, at a cost of \$229 000.

#### *The accommodation planning and reporting system*

**2.49** The accommodation planning and reporting system provides the ATO with computer-generated graphical representations of workspaces. This capability allows the ATO to visually block and stack building floors and workspaces, improving efficiency in the allocation of workpoints, and assists with demand forecasting and planning for office space.

**2.50** The ATO’s use of this system is through a sub-contract arrangement between the property management services provider and the system development company.<sup>91</sup> In addition to the implementation cost, the ATO pays

<sup>88</sup> ATO, *The ATO Corporate Management Procedures and Instructions* (CMPi) 2005/22.

<sup>89</sup> Prior to January 2012, the PS&ES branch also conducted monthly reconciliations of directory data—however this was viewed as a duplication of the work undertaken by the National Accommodation Coordinators, and was discontinued.

<sup>90</sup> The system improves the ATO’s accommodation reporting capabilities by overlaying office floor plans with staff locations listed in the ATO Staff Directory.

<sup>91</sup> While using the system is relatively new to the ATO, similar property management planning tools have been available since the mid-1990s.

the company a monthly fee for their use of the system, that includes: the hosting and maintenance of the system; the visual 'block and stack' capability; and data imports. Other services, such as uploading a new floor plan or an updated floor plan and training ATO staff to use the system, attract additional fees.

**2.51** As at December 2012, this company did not have Information Security Manual (ISM) certification for conducting business on behalf of an Australian Government agency, limiting the way the ATO can use the system. Similar to the spreadsheets, the system relies on information from the ATO Staff Directory. Due to the company's lack of ISM certification, this information has to be encrypted and manually uploaded each day by the PS&ES branch, in order to maintain the required level of security for ATO staff.

**2.52** ISM certification would allow an automated upload, as well as allowing the ATO to use the additional modules and reporting capabilities that are available, including financial reporting, workplace health and safety requirements, and changes to the allocation of computers and related hardware. The ATO advised that the company has engaged an auditor to work through the ISM certification process, and it is expected to be in place in July 2013. In the meantime, the ATO is paying for functionality it cannot use, as well as the cost of maintaining the Agreed Footprint Allocations Register and Allocation Changes Register spreadsheets.

### ***Occupancy data***

**2.53** On 15 January 2013, the ANAO conducted a physical 'spot check' of the ATO's occupancy records (extracted from the ATO's accommodation planning system) against actual staff occupancy. The check was undertaken on two levels of the ATO's buildings in Canberra. The results indicated some variations between the data and the actual number and use of workpoints at the time of the spot check. Table 2.1 sets out the results of the 'spot check'.

**Table 2.1****Results of the ANAO physical ‘spot check’ of ATO occupancy data**

	ATO occupancy record	Spot check results	Difference (%)
Total occupied workpoints	727	770	6
Total vacant workpoints	228	179	27
Total workpoints	955	949	1

Source: ANAO analysis.

**2.54** The ATO advised that the differences were possibly due to team relocations underway at the time, and this explanation would be validated by the Australian Government Property Data Collection (PRODAC) reporting, discussed below. However, the ATO does not have a documented process for the monthly reconciliation undertaken by the National Accommodation Co-ordinators, and directives have not been issued to staff about the importance of keeping their ATO Staff Directory entry up-to-date. Additionally, the need to manually upload data from the ATO Staff Directory to the accommodation planning system presents further risk to its accuracy.

**2.55** Given the importance of accurate data to support property planning, there would be value in the ATO reviewing the data entry and reconciliation processes when the accommodation planning system becomes fully operational.

#### *Australian Government Property Data Collection*

**2.56** The accommodation planning system also provides data for the ATO’s PRODAC reporting requirements. As previously discussed, PRODAC was established by Finance in 2010 to support a central database on aspects of property that is leased or owned by the Australian Government. Commencing in September 2009, agencies were required to collect and report property data in March and September each year, in accordance with the data specifications issued by Finance.<sup>92</sup>

<sup>92</sup> PRODAC reporting requirements, available from <[www.finance.gov.au/property/property/property-data-collection.html](http://www.finance.gov.au/property/property/property-data-collection.html)> [accessed 22 February 2012].

**2.57** Initially, data collections related to agencies' occupational density for buildings in which the agency leased or owned 500 square metres or more of usable office area at any time during the reporting period.<sup>93</sup> Commencing in 2010–11, Finance also began collecting agencies' property 'cost files' relating to the same category of leased property. The 'cost file' captures actual property cost information for the previous financial year. As at December 2012, Finance had collected six sets of data dealing with agencies' occupational density<sup>94</sup>, and two on cost data.

#### Occupancy data provided to Finance

**2.58** Finance validates all agencies' occupational density data submissions, and, for the first four data captures, commissioned an external provider to undertake independent validation testing. While significant errors were identified in agencies' initial data submissions, including in the ATO data, Finance considered these errors were likely due to a misunderstanding of the PRODAC requirements. Finance advised that, since the initial data capture, data quality has been consistently high at the whole-of-government level.

**2.59** The ATO has met the reporting requirements established by PRODAC and has reduced its number of vacant workpoints. ATO data, sourced from PRODAC for the period September 2009 to September 2012, is set out in Table 2.2.<sup>95</sup> Commencing in 2012, agencies are only required to submit occupational density reports to Finance annually. The ATO has met this requirement and the 2012 data is included in the table.

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<sup>93</sup> Department of Finance and Deregulation, Australian Government Property Data Collection website, available from <<http://www.finance.gov.au/property/property/property-data-collection.html>>. [accessed 22 February 2012].

<sup>94</sup> The data sets dealing with agencies' occupational density were collected in September 2009; March 2010; September 2010; March 2011; September 2011 and September 2012.

<sup>95</sup> As at January 2013, Finance advised that agencies' cost data for 2012, had not been validated or reported.



**Table 2.2****ATO PRODAC data on workpoint vacancies for all properties with at least 500m<sup>2</sup> of usable office space, September 2009 to September 2012**

Reporting date	Fit-out density <sup>1</sup>	Occupational density <sup>2</sup>	Workpoint vacancy <sup>3</sup>
30 Sep 2009	15	18	18.2
31 Mar 2010	15	19	21.6
30 Sep 2010	15	18	20.0
31 Mar 2011	15	18	17.2
30 Sep 2011	15	17	14.8
30 Sep 2012	15	17	15.7

Source: Department of Finance and Deregulation.

Note 1: Fit-out density: square metres per workpoint.

Note 2: Occupational density: square metres per occupied workpoint.

Note 3: Workpoint vacancy calculated by: total workpoints minus occupied workpoints, divided by the total number of workpoints x100.

**2.60** The ATO reported a reduction in the agency's overall density footprint by 0.38 square metres, from 16.87 square metres in June 2011 to 16.49 square metres in June 2012<sup>96</sup>, for all properties with at least 500 square metres of usable office space. The ATO plans to meet the Australian Government's workpoint target of sixteen square metres per occupied workpoint, but has generally not achieved this target in recent years. Current data would suggest that the NAF needs to continue to seek improvements in occupancy rates in ATO offices to meet occupancy targets and to reduce costs.

#### Cost file data

**2.61** Finance has collected two sets of agencies' property cost data, for 2010–11 and 2011–12. Agencies are required to submit actual costs incurred for each financial year, in relation to building leases, property administration, and costs associated with changes to the tenancy area. The ATO has met the reporting requirements for the two years, and Finance has validated, but not

<sup>96</sup> ATO, *Commissioner of Taxation Annual Report 2011–12*, p. 146.

published the 2011–12 data. There are no targets established for agencies' property costs.

## **Individual property plans**

**2.62** The summary information contained in individual property plans is designed to support regular building maintenance and operations, as well as long-term location decisions, by providing a 'snapshot' of key aspects of each property occupied by the ATO. This includes the financial costs and environmental performance of the buildings, general building conditions, and any capital works scheduled for the property.

**2.63** As at December 2012, the ATO had completed individual property plans for each leased property. The ANAO's review of the plans found that they provide comprehensive summary data in a format that is readily accessible, and complement more detailed information contained in core property documents. The majority of the plans (75 per cent) were complete. There were minor omissions in the remaining 25 per cent, with the most commonly omitted detail being the date of the last change in specific fields of the plan. The ATO's aim is to update and maintain the individual property plans as changes occur across the ATO's sites.

## **Conclusion**

**2.64** Since 2009, the ATO has implemented a number of administrative and operational changes and initiatives to strengthen the management of its property portfolio. The new arrangements commenced with the development of a strategic property plan, the ATO's *Property Management Plan (2010)*, in response to the requirements of the Property Framework. The ATO did not have the necessary skills in-house to develop this plan, and had limited property related data and information.

**2.65** Other major property initiatives introduced over the past four years to address shortcomings identified in property management and planning include: establishing, at a senior executive level, a National Accommodation Forum to provide strategic oversight of the agency's property portfolio; and developing annual Location Plans that provide information on the location and cost of the ATO's properties up to five years in advance. Administrative changes also include forming: a Change Advisory Board, whose members are responsible for ensuring the accuracy of core documentation that sets out standards and procedures governing aspects of the ATO's property portfolio;

and an Environmental Management Committee to advance the ATO's environmental initiatives.

**2.66** The implementation of a computer-based accommodation planning and reporting system has improved the quality and accuracy of property-related data. Reports provided by the system will assist the ATO with the planning and operations of its property portfolio. Further, recently completed individual property plans provide easily accessible data on each property under lease to the ATO.

**2.67** As at April 2013, many of these initiatives were only recently implemented and required further refinement. Notably, the ATO had still to review and update the agency's *Property Management Plan (2010)*, to establish an overarching strategy for its property portfolio and integrate the property planning function within the ATO's broader corporate planning cycle. Additionally, the linkages and dependencies between the ATO's property management plan and its location plans could be more clearly defined. Lack of security certification also restricts the ATO's use of the accommodation planning system, despite the system being in use for some 18 months, and the ATO has not yet met the Government's occupational density target.<sup>97</sup> The new property management approaches are not yet fully implemented, and will require ongoing senior executive oversight and agency-wide promotion and understanding.

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<sup>97</sup> The ATO aims to meet the Australian Government's workpoint target of 16 square metres per occupied workpoint but has not fully achieved this target in recent years. For example, the ATO reported a reduction in the agency's overall density footprint by 0.38 square metres, from 16.87 square metres in June 2011 to 16.49 square metres in June 2012. ATO, *Commissioner of Taxation Annual Report 2011–12*, p. 146.

## Recommendation No. 1

2.68 To support the ongoing initiatives in property management and planning, and consistent with Department of Finance and Deregulation guidance, the ANAO recommends that the Australian Taxation Office maintains an overarching property management plan, which is updated every two or three years in line with the agency's corporate planning cycle, and provides clear strategic direction for its property portfolio.

### ATO response

2.69 *Agreed. The ATO is committed to improving the alignment between the Property Management Plan and the overall strategic direction of the agency.*

### 3. Administration of Property Management Services Contracts

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*This chapter examines the ATO's arrangements for administering the property management services contracts.*

#### Introduction

**3.1** As noted in Chapter 1, during the 1990s successive Australian Governments introduced changes to the management and regulation of property occupied by Commonwealth agencies. Prior to 1990, the Government owned most of its property, and the portfolio was administered through the then Department of Administrative Services. By 1997, the department had been disbanded and much of the property portfolio had been sold. Agencies generally entered into lease agreements rather than own property, and were required to manage their own property needs, looking to the market for the provision of specialist property services.

**3.2** The ATO first outsourced the provision of property management services in 1999, for the period 1999–2004. The range of services to be delivered was expanded in the second contract, 2004–12 (including exercising two, two-year extension options); and in the new contract covering the period 2012–17 (similarly, with two, two-year extension options available).<sup>98</sup>

**3.3** The ATO applies a contract management framework to manage the property contract. The framework consists of three elements:

- contract management groups—link relevant staff in the ATO with their service provider counterparts, aligned with the various services delivered under the contract;
- contractor reporting requirements—list the weekly, monthly and annual reports the contractor is required to submit to the ATO within agreed timeframes; and

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<sup>98</sup> Services delivered under the ATO's first property management services contract, 1999–2004, included a relatively narrow range of services (in comparison to the services delivered under subsequent contracts) covering lease administration, bill paying, building inspections and routine maintenance. The services provided were expanded in the second contract, 2004–12, to include almost all aspects of property management, from the delivery of cleaning services to the management of complex capital work projects.

- a performance management framework—sets out the contract’s critical success factors, service level agreement and associated performance standards, and the contract key performance indicators (KPIs) applied to the services provided under the contract.

The ATO has also established processes for the payment of the provider’s fees, and compliance with the Government’s AusTender contract reporting requirements, which are discussed in Chapter 4.

**3.4** To assess the ATO’s management of its property services contracts, the ANAO examined the administration of the contract management framework that consists of the: contract management groups, contractor reporting requirements and contractor performance management framework. As background, the contract reviews undertaken by the ATO at key stages of the services contracts are discussed.

## Property management services contract reviews

**3.5** Key issues that agencies need to consider when deciding to exercise an option to extend a contract, or approach the market, include the:

- comparative value for money of exercising the option and continuing the contract versus re-approaching the market under a new procurement process, including with regard to the costs of tendering;
- performance of the current provider and the management of the contract; and
- current market conditions.<sup>99</sup>

**3.6** The ATO addressed these issues by commissioning three reviews examining key aspects of the property management services contracts: two contract extension reviews<sup>100</sup> and a pre-procurement review in preparation for the 2012–17 contract procurement process. The reviews were designed to provide the ATO with independent assessments of the range, value and standards of services delivered under the contract, and to identify areas where improvements could be made.

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<sup>99</sup> ANAO, Better Practice Guide, *Developing and Managing Contracts, getting the right outcomes, achieving value for money*, February 2012, p. 101.

<sup>100</sup> The initial contract period was from 1 July 2004 to 30 June 2008. The first contract extension covered the period 1 July 2008 to 30 June 2010, with the second period covering 1 July 2010 to 30 June 2012. *Proposal for the Extension of the Tax Office’s Property Services Contract with United Group Services (UGS)*, (APCM 154.03) and Australian Taxation Office, *Review and Assessment of UGS Property Services Contract—June 2007 and September 2009*.

## Contract extension reviews

3.7 The first review was undertaken in June 2007 for the 2008–10 two-year contract extension option, and the second review was undertaken in August 2009 for the 2010–12 extension option. Both reviews had a similar scope and examined:

- the market for outsourced property management services providers in Australia and their capabilities;
- the appropriateness of the current scope of services being provided, including core and marginal services<sup>101</sup>; and
- an evaluation of the current service provider's performance, assessed against typical performance by other leading organisations.

### *First review, June 2007*

3.8 The review concluded that, overall, the arrangement was sound and the ATO should exercise the extension option, but noted difficulties with the ATO's operational planning including that the provider:

... continues to believe that there is an expectation regarding strategy and argue that they cannot deliver this without input and guidance from the ATO on their property needs; (and)

... flagged difficulties with the ATO's fluid accommodation plans, and they believe the current planning arrangement agreed with the ATO lacks value and purpose in terms of its use by the ATO.<sup>102</sup>

Actions recommended in the review included that the ATO improve its operational planning process and develop a three-year capital works program.

### *Second review, September 2009*

3.9 Similar to the first review, the second review found that the ATO and the service provider had each been generally satisfied with the performance of the services, but noted opportunities for improvement including:

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<sup>101</sup> Core services are those integral to the delivery of the full package of services being performed by the service provider to an acceptable standard and unlikely to be removed from the scope of the services. Marginal services might be removed from the future package of services because of weaknesses in performance. Grosvenor Management Consulting, *Australian Taxation Office Review and Assessment of UGS Property Services Contract*, Canberra, 25 September 2009, p. 9.

<sup>102</sup> ATO, Property Management Services Contract, contract extension review, June 2007, p. 11.

- shortcomings in the long-term strategic planning for the property portfolio (it was noted that the ATO had taken steps to resolve this with the development of a location strategy);
- the need to clarify the ATO's expectations for environmental services and the implementation of the environmental management program; and
- some misalignment between expectations concerning 'value-add' services (that is, the need to define what is a value-add and not simply an improvement in services).

This review also benchmarked the fees charged under the contract, concluding that the current fees for services represented value for money for the ATO.<sup>103</sup>

**3.10** The ATO used the results of this review to vary the services provided during the final contract extension period, 2009–11, including:

- access by the ATO to the service provider's in-house environmental reporting system and other software; and
- the provision, by the service provider, of a fulltime National Facilities Manager for the ATO portfolio.

## **Pre-procurement review, November 2010**

**3.11** With the 2004–12 contract extension options exhausted, the ATO issued a request for tender in June 2011 for the delivery of property management services for the period 2012–17. Prior to the request for tender being issued, in November 2010 the ATO commissioned an independent review of the established contract service delivery model and the scope of the services to be delivered.

**3.12** The review provided the ATO with an overview of alternative contract models, including performance management arrangements and incentives. It concluded that the contract model and the ATO's management arrangements were sound, however recommendations included that the ATO:

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<sup>103</sup> The fee-range benchmark was developed based on the property portfolios and the scope of services for like clients of the external consultancy firm. The service provider's fee was calculated as a percentage of property operating expenses per square metre of property under management, based on the ATO's property operating expenditure and the number and size of properties. On this basis, the reviewer concluded that the service provider's fees reflected value for money for the ATO.



- update the service specifications in the contract to reflect identified changes; and
- maintain the current contract model but review the critical success factors and contract KPIs to ensure they align with ATO objectives and priorities.<sup>104</sup>

**3.13** Using the results of the review, the service specifications for the third contract were expanded to include:

- the provision of support to the ATO in meeting the requirements of the Commonwealth Property Management Framework, including the reporting of PRODAC information for Finance;
- enhanced support for identified shortcomings in the ATO's property management capabilities, including long-term strategic planning; and
- clarification of expectations between the ATO and the provider around environmental and value added services.

The ATO also modified aspects of the contract performance framework, (discussed further in the chapter), and included the location plan as part of the contractual documentation, partially addressing the planning issues identified in both the 2007 and 2009 contract extension reviews.

**3.14** The provider that had delivered services under the previous contract (2004–12) was successful in bidding for the new contract. The ATO considers that the relationship with the provider has matured since 2009, built on: improved annual planning discussions; a clearer definition of what is described as 'value add' under the new contract; and more open lines of communication.

## Contract management framework

**3.15** As previously discussed, the contract management framework for the management of the ATO's property management services contracts consists of three elements: contract management groups; contractor reporting requirements; and a contractor performance framework. These elements were established under the previous contract covering the period 2004–12 and remain, essentially, the same in the newly established contract for the period

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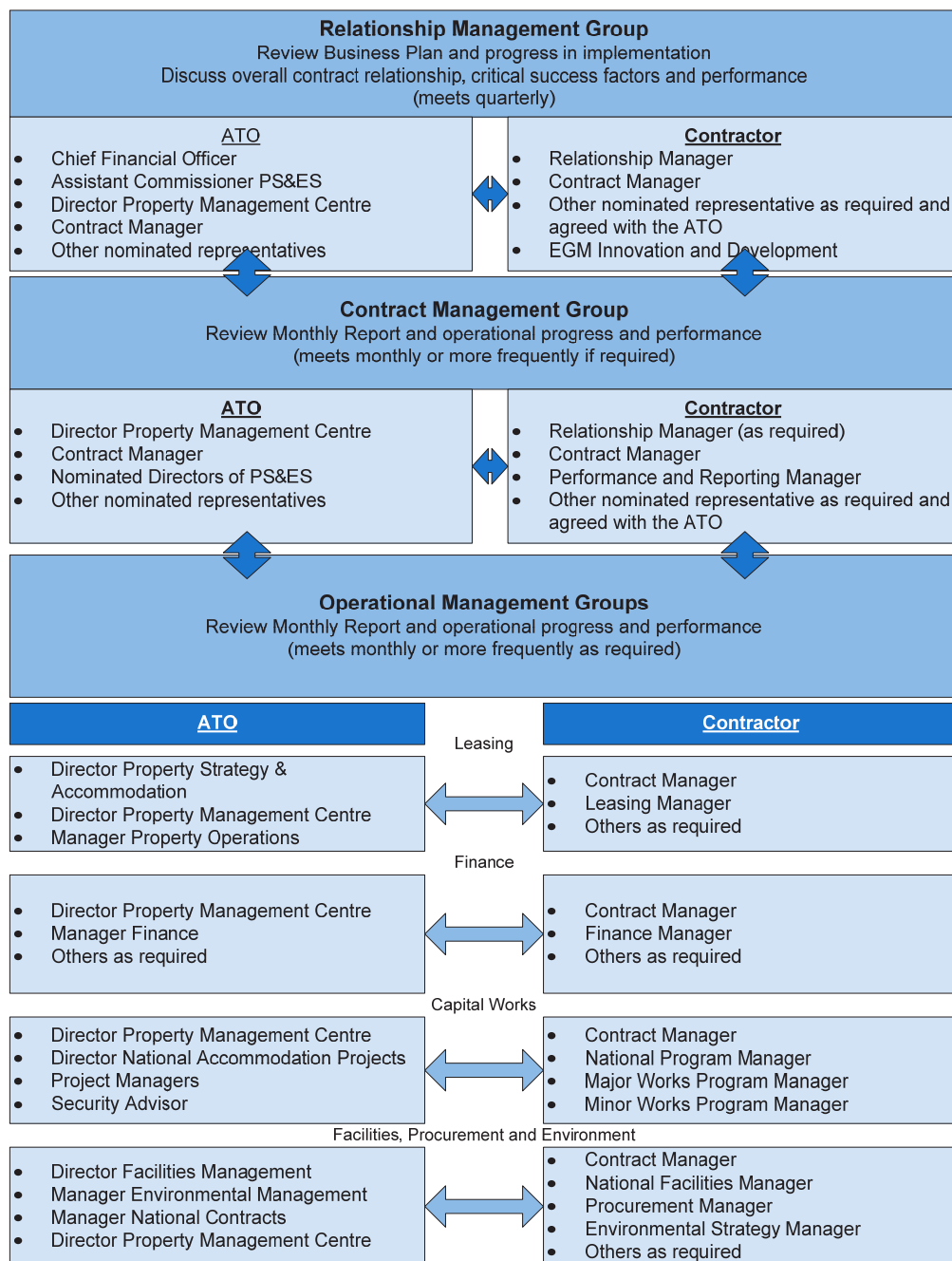
<sup>104</sup> Grosvenor Management Consulting, *ATO, Property Management Contract Service Delivery Model and Input to Procurement Strategy*, November 2010.

2012–17. However, as recommended in the pre-procurement review, the new contract reflects changes to the critical success factors and contract KPIs to better align them with the ATO's service delivery requirements.

**3.16** The ATO also advised the ANAO that contract management is now more comprehensive than that undertaken in previous years. Prior to 2009, there was minimal documentation maintained in relation to the ATO's outsourced services and property management more generally.

### **Contract management groups**

**3.17** The ATO has established six contract management groups linking relevant staff in the PS&ES branch with their service provider counterparts, including at different levels of authority. Details of the roles, frequency of meetings and membership of the groups are set out in Figure 3.1.

**Figure 3.1****ATO contract management groups**

Source: ANAO analysis of ATO data.

Note: Under the 2009 contract extension, the Facilities Management Group became the Facilities, Procurement and Environment Group.

**3.18** The agendas and minutes of the groups' meetings, and monthly reports for the period 2009–10 to 2011–12 and for the first six months of the new contract, July to December 2012, reflect that all the groups have met as scheduled, and attended to matters within their relevant portfolio responsibilities. Examples of the matters dealt with by the groups and recorded in the minutes include that the:

- Relationship Management Group considered matters referred to it by the other groups in addition to major project plans and progress updates. The group also reviewed progress against the contract's established performance goals including customer satisfaction results, and considered matters relating to the ATO's property strategies and requirements established by the Property Framework;
- Contract Management Group reviewed progress of the services being provided and projects underway, and the service provider's performance within all service delivery areas. This included consideration of the monthly reports from each operational group and any variations that may be required to contract or project specifications; and
- four operational groups met to discuss operational issues and performance within their defined operational areas (leasing, finance, capital works, and facilities, procurement and environment). This included review and discussion of the monthly report, consideration of the quality of the services being provided, and any potential issues that may require remedial measures.<sup>105</sup>

**3.19** Action items raised at those meetings were allocated to the relevant parties within the groups, remained on the agenda, and were monitored through the minutes until completed. For example the:

- Contract Management Group has a repeating agenda item for project budgets. An action item for this was an initiative by the service provider to hold a joint workshop with the ATO to monitor budget use. The minutes tracked this initiative from inception through to close out of additional action items required, over a period of five months from March to August 2011; and

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<sup>105</sup> ATO *Property Management Services* SLA – APCM154.03, p. 75.

- agenda and minutes for the National Project Management Meetings contain a repeating item, 'Issues escalated from the national project works meeting'. This forum was raised to identify a lack of attendance by ATO Directors at scheduled project and integrated fit-out meetings, impacting on the service provider's ability to fulfill contractual obligations. The matter was tracked over a period of two months and was resolved with the establishment of the ATO Directors' meetings.

**3.20** In discussions with the ANAO, the ATO's and service provider's staff expressed their satisfaction with how communication is managed, and the strength of the contract management relationship.

### **Contractor reporting requirements**

**3.21** Under the second (2004–12) and third (2012–17) contracts, the service provider is required to submit a number of weekly, monthly, and annual reports to the ATO within an agreed timeframe, and to provide a single point of contact within their structure to oversee and coordinate the delivery of these reports. The reports the service provider is required to submit include:

- an annual business plan incorporating an annual procurement plan, a preventative maintenance program and operational strategies for each building to minimise costs to the ATO;
- a monthly report for discussion by the contract management groups that summarises key elements of the services being provided, including the status of all projects and any incidents or issues that occurred during the month;
- an activity log (or action register) to record all items requiring action, their current status and corresponding resolution plans, as well as a complaints log; and
- a detailed monthly financial report that provides details of revenue and expenditure for the month and year-to-date.

**3.22** A review of the reports for the period 2009–10 to 2011–12 and July to December 2012, indicated that they contained the required content. Minor exceptions included that the annual business plans were not dated or version controlled, making it difficult to assess whether the provider had met the established timeframe; and a separate activity log was not maintained, although action items were routinely monitored through the minutes of the contract management groups.

**3.23** The timeliness of the provider’s submission of the reports to the ATO is one of a set of 15 contract KPIs, discussed later in this chapter. KPI reports for the period 2009–10 to 2011–12, and July to December 2012, indicate that the service provider met the ATO’s timeliness standard, including in the new contract, where the performance standard has been raised to 96 per cent (from 90 per cent) of reports submitted within the required timeframe. The percentage of reports that the provider submitted to the ATO within the required timeframe for the period examined is set out in Table 3.1.

**Table 3.1**

**Percentage of property contractor reports submitted to the ATO within agreed timeframes**

	2009–10	2010–11	2011–12	Jul – Dec 2012
Reports delivered within timeframe	96.6%	99.1%	95.3%	97.5%

Source: ATO monthly KPI reports.

**Contractor performance management framework**

**3.24** Consistent with better practice in developing a contract<sup>106</sup>, the performance management framework was incorporated into the ATO’s 2004–12 and 2012–17 contracts at the time of drafting, and was included in the ATO’s approaches to the market. The framework consists of the same four elements in both contracts:

- critical success factors that are used to consider the overall success of the contractor/provider relationship;
- contract KPIs to measure contractor performance;
- a balanced scorecard approach to determine the contractor’s risk and reward, or bonus payments; and
- service performance measures set out in the contract’s service level agreement.<sup>107</sup>

<sup>106</sup> ANAO, Better Practice Guide, *Developing and Managing Contracts, getting the right outcomes, achieving value for money*, Feb 2012, part 2, Developing the contract.

<sup>107</sup> ATO, *Contract for the provision of property management services APCM154.03, Service Level Agreement*, pp. 82–89.

*Critical success factors*

**3.25** The critical success factors (CSFs) are common to all services, and are designed to assist the ATO to form an opinion on the extent of the service provider's achievement against the ATO's critical contract objectives. The value of the CSFs as part of the performance management framework is to provide a context for the delivery of services, and the manner in which they are to be delivered. The contract emphasises that the CSFs apply equally to the service provider and its subcontractors, and are a mechanism to ensure that all services are underpinned by ATO values and government requirements.

**3.26** The ATO has amended the CSFs for the 2012–17 contract following the recommendations of the pre-procurement review in November 2010. While the wording of the CSFs has changed, the main difference in the new contract is the inclusion of measures of the quality and experience of the provider's staff. Environmental factors were included under the previous contract through a contract amendment in July 2011, and have been retained in the 2012–17 contract. Table 3.2 sets out the CSFs under each contract.

**Table 3.2**

**Critical success factors in property management services contracts**

Critical success factors common to all services	
2004–12 contract <sup>1</sup>	2012–17 contract <sup>2</sup>
<ul style="list-style-type: none"> <li>• demonstrate proactive management of the portfolio and provision of advice to the ATO;</li> <li>• provide a responsive and timely service that is flexible to the ATO's changing needs;</li> <li>• minimise occupancy and other costs to the ATO, through the pursuit of best practice in facilities management, real estate and project management services;</li> <li>• ensure compliance with all Government and statutory requirements;</li> <li>• accurate and timely compliance with the ATO's financial reporting requirements;</li> <li>• services procured in accordance with Commonwealth Procurement Guidelines and the agreed procurement protocol;</li> <li>• provide and maintain a safe, clean and pleasant environment for all ATO staff and members of the public;</li> <li>• adhere to the principles contained in the Taxpayers' Charter, APS Values and Code of Conduct and the ATO's Ethical Relationships Guide available on the internet at <a href="http://www.ato.gov.au">www.ato.gov.au</a>; and</li> <li>• achieve and maintain a non-adversarial relationship between the service provider and the ATO, where issues are mutually resolved, opportunities jointly explored and risks/benefits equitably shared.</li> </ul>	<ul style="list-style-type: none"> <li>• minimise occupancy and other costs to the ATO through the pursuit of best practice in facilities management, real estate and project management services;</li> <li>• demonstrated adherence to core behaviours of proactive management, responsiveness, timely service, flexibility and innovation;</li> <li>• demonstrated ability to ensure compliance with all Government and statutory requirements, particularly in regard to conducting of compliant procurement and subcontract management processes including the on-going achievement of value for money;</li> <li>• quality of staff, as demonstrated by: qualifications and experience; treatment of ATO as a key client; and adherence to the Taxpayer's Charter, APS Values and Code of Conduct and the ATO's Ethical Business Relationship Statement;</li> <li>• high quality delivery of services and management of the contract, performance and the relationship;</li> <li>• provide and maintain a safe, clean and pleasant environment for all ATO staff and members of the public;</li> <li>• a reduction of the environmental impact of the ATO's operations through improved management of energy, water, waste, recycling, pollution, and carbon emissions.</li> </ul>

Source: (1) Property Management Services Contract, 2004–12, p. 83.

(2) Property Management Services Contract, 2012–17, pp 102–103.

**3.27** The ATO advised that the CSFs are not designed to be measured, but are supported by the KPIs, and are used to view the success of the overall contractual relationship. They provide a focus for discussion in the contract management groups and, specifically, guide all considerations in the Relationship Management Group.



### *Contract key performance indicators*

**3.28** Under the ATO's property management services contracts, 15 KPIs<sup>108</sup> are routinely measured to assess the provider's performance, and the contracts allow the KPIs to be monitored on an annual basis, or more frequently if required by the ATO. In practice, most of the KPIs are scored and reported monthly, although some of the KPIs deal with the performance of particular services that have specified annual targets, and may not be performed each month. These services include value adding opportunities identified by the contractor that are recorded only in the months when they are performed.

**3.29** The majority of KPIs have clearly defined quantitative standards—the timeliness of the submission of reports, or an acceptable margin within budget—while others with qualitative standards are more complex to assess. The performance standards for each KPI are set out in Table 3.3. The 'weighting' rates included in the table relate to the balanced scorecard, discussed in the next section of this chapter.

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<sup>108</sup> Fourteen KPIs were specified in the 2004–12 contract. An additional KPI measuring the quality of the contract manager's key personnel was added in the 2012–17 contract.

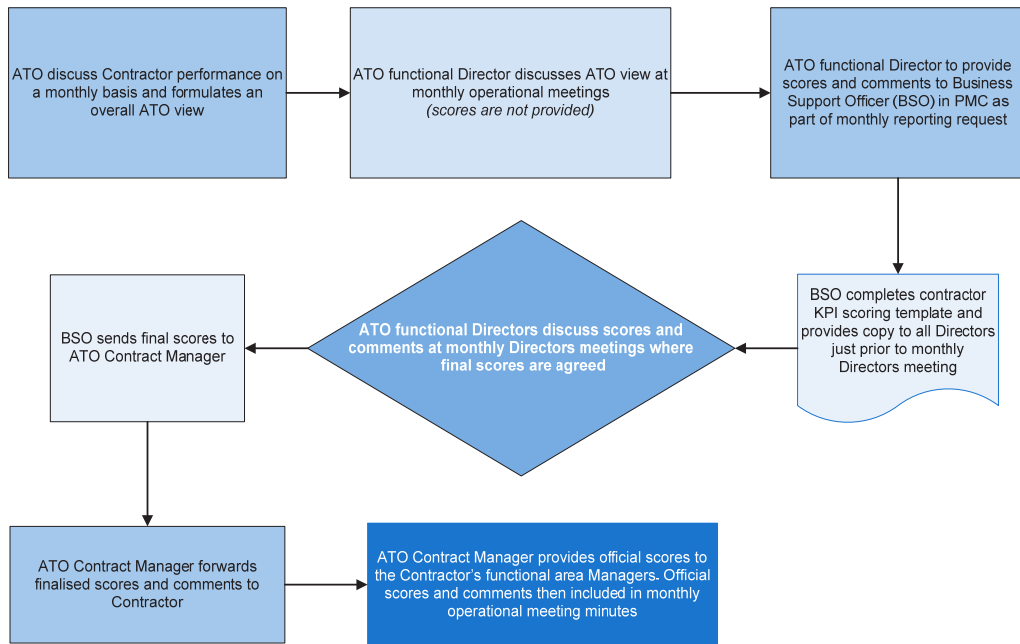
**Table 3.3****KPIs, minimum performance standards and weightings**

KPI	Minimum performance standard	Weight (%)
Ability to deliver quality and consistent services to the ATO using third party contracts (subcontractor management)	Meets expectations	6
Demonstrates responsiveness and flexibility	Meets expectations	8
Demonstrates innovation and proactivity	Meets expectations	
Variation from approved operational expenditure budget	(+/-) 5%	6
Invoices paid within 30 days of correctly rendered invoice	95%	6
Number of instances of value added initiatives as defined and agreed to by both parties	5 per year	6
Number of instances of non-compliance with Commonwealth Government legislative and regulatory requirements, including ATO security provisions and Commonwealth Procurement Guidelines	No more than 2 per year	7
Quality of the Property Manager's key personnel	Meets expectations	10
Reports received and accepted by the ATO within agreed timeframes	96%	7
Meets performance criteria in accordance with the service level agreement and the contract	Meets expectations	8
Number of procurement projects completed outside of the approved procurement plan	<3	8
Number of sustainable complaints received in writing, including PINS (OH&S), attributable to the Property Manager	5 per year	8
Achievement of Help Desk response timeframes (tenant)	95%	8
Achievement of Help Desk response timeframes (landlord)	90%	6
Environmental Management Program actions over agreed timeframes and / or budget attributable to the Contractor	<10%	6
		<b>100</b>

Source: ATO Property Management Services Contract, 2012–17, pp.102–106.

**KPI scoring process**

**3.30** The KPI monthly scoring process undertaken by the ATO and the service provider has been maintained over the course of the second and third contracts, but has been better documented since 2009. The process is illustrated in Figure 3.2.

**Figure 3.2****KPI monthly scoring process**

Note: PMC is the Project Management Centre.

Source: ATO, May 2012.

**3.31** The KPIs are scored on a rating scale of one to five, where a score of one means that the provider has failed to meet the ATO's performance standard for that KPI, and two that the services are just below expectations. A score of three is awarded when the provider has met expectations, with four and five reflecting that services have been 'above' and 'well beyond' the ATO's expectations, respectively.

**3.32** The PS&ES branch applies a number of mechanisms to support fair and consistent assessment of each aspect of the service being measured. As shown in Figure 3.2, PS&ES branch staff assess the provider's performance at a function level, prior to discussion at the monthly Directors' meetings. PS&ES branch directors are required to document the reasons underpinning all the performance scores, providing transparency of, and accountability for, their decisions. The scores are then discussed with the provider at monthly management group meetings before being finalised.

**3.33** Extracts from minutes of the PS&ES directors meetings and from the operational management groups since 2010 and for the start of the new contract in July 2012 reflect detailed discussion between the PS&ES directors,

and with the provider on aspects of performance. As previously noted, the minutes reflect that directors have reviewed their assessment of good or bad performance, and could change their rating after consideration of other factors. This process is complemented by annual staff surveys on the standard of services being provided, and input from ATO business managers.

#### KPI reporting

**3.34** The monthly KPI reports for the period 2009–10 and 2011–12, and from July to December 2012, reflect changes, clarifications and refinements to the services being measured that have been negotiated between the ATO and the service provider. For example:

- the June 2011 KPI report, *Satisfaction with responsiveness/flexibility/innovation*, reflects an additional requirement that ‘extreme results (either positive or negative) should be supported by an explanatory note sufficient to enable the rationale behind the result to be clearly understood by both parties’; and
- the June 2012 KPI report, *Number of instances of proactive value add advice implemented by the ATO*, provides details of modifications to this KPI to clarify the definition and required actions by either or both the ATO and the contractor, including recommendations in each of the ATO’s external reviews (previously discussed).

Overall, the KPI monthly results for the period examined reflect that the provider’s performance consistently met or exceeded the established standards in the respective contracts.

**3.35** At a strategic level, the KPIs measure aspects of the contracted services that the ATO consider to be essential to the management of the ATO’s property portfolio. Changes in the 2012–17 contract reflect a review of performance measures, as recommended in the pre-procurement review (November 2011), that CSFs and KPIs must ‘align with the ATO objectives and priorities’.<sup>109</sup> The review also noted that one of the challenges in developing contract models is to ensure that the model is practical, and assessed the ATO’s arrangements as appropriate with regard to:

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<sup>109</sup> ATO, Property Management Services Contract, *Pre-procurement review*, November 2012, p. 31.

- effort—monitoring, maintaining and reporting of the metrics and performance must not require disproportionate effort from either party; and
- being fit for purpose—the model must be appropriate for the types of goods and services.<sup>110</sup>

**3.36** Overall, the relatively small number of KPIs is relevant and sufficiently complete in that they allow the ATO to monitor essential aspects of the services being delivered. They are also measureable without imposing an unreasonable administrative burden on either ATO staff or those of the provider. The minutes of the PS&ES directors' meetings and contract management meetings indicate rigour and broad consultation undertaken as part of the monthly scoring process.

### *Balanced scorecard*

**3.37** Using the KPI scores, the ATO applies a balanced scorecard approach<sup>111</sup> to determine the contractor's annual risk and reward payments. Under the contract, eight per cent of the management fees are 'fees at risk', subject to the score achieved through the balanced scorecard. The KPI scores achieved each month are averaged across the year to provide an annual score that is then weighted.<sup>112</sup> The total weighted scores result in a final score between one and five.

**3.38** Where performance has met the ATO's expectations and the provider achieves an annual score of three, 100 per cent of the 'fee at risk' is paid by the ATO. Scoring below three would proportionally reduce the amount paid, and above three result in the provider receiving a bonus payment. The risk and reward payments took effect through a contract variation in February 2005, with the first payment being made at the end of 2006–07.

**3.39** In each of the six years that the balanced scorecard has been applied, the provider has scored above three, earning a bonus payment equivalent to more than 100 per cent of the 'fee at risk' amount, although there was little evidence for the basis of these payments in the early years. The payment

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<sup>110</sup> *Property management contract service delivery model and input to procurement strategy*, November 2010. p. 14.

<sup>111</sup> The balanced scorecard is a strategic management and measuring process used to help align specific business activities with an organisation's strategy and vision, developed in the 1990s at the Harvard Business School. The ATO is using a form of the balanced scorecard to align key contract objectives with provider performance.

<sup>112</sup> For example, a KPI with an average annual score of 3.25 and a 10 per cent weighting, would achieve a score of 0.325 for the balanced scorecard.

amounts, scores and percentage of the 'fee at risk' for the period 2006–07 to 2011–12, are set out in Table 3.4.

**Table 3.4**

**Bonus payment scores and amounts, 2006–07 to 2011–12**

Year	Rating score	Fee at risk (\$)	Total bonus (including GST) (\$)	Amount of maximum bonus not received (\$)
2006–07	4.17	199 213	77 527	121 686
2007–08	4.41	207 182	96 512	110 670
2008–09	4.36	215 469	97 679	117 790
2009–10	4.46	224 088	119 961	104 127
2010–11	4.21	268 370	108 242	160 128
2011–12	4.15	281 789	108 019	173 770

Source: ATO.

**3.40** The balanced scorecard approach enables a robust performance review and is an effective reward methodology as it presents an additional incentive to the provider. However, the balanced scorecard approach may benefit from performance standards being regularly reviewed to encourage continuous improvement in the services being delivered.

*Service performance measures*

**3.41** The service level agreement in both contracts details nine categories of services<sup>113</sup> with 230 associated performance measures and minimum performance standards. The performance measures are not routinely measured or reported against by the service provider or the ATO. Rather, they are designed to inform the service provider of the ATO's expectations of the standard of services provided under the contract. Where performance may be lacking, they also provide the ATO with a mechanism to require the provider

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<sup>113</sup> The services are: portfolio planning; lease management; project management; financial support; environmental management; facilities management; building support; subcontractor management; and management information systems.

to undertake detailed monitoring and reporting of a particular service, or services, until the ATO is satisfied with the services being delivered.

**3.42** The performance measures are comprehensive as they cover all aspects of the services under contract, from the management of minor building maintenance requirements, to the provision of advice and input to the ATO's property planning. In relation to planning, service specifications included in the 2012–17 contract expands (from the previous contract) on the provider's role in supporting the ATO's property planning:

To help manage fluctuating requirements for space, the ATO has a formal Strategic Annual Property Plan as well as other annual plans for accommodation requirements including a Capital Works Plan. The Contractor will monitor the ATO's strategic accommodation needs and provide value added advice and information that would assist the ATO to further develop and maintain its forward plans and Government reporting obligations including assistance in the publication of an Annual Property Plan and PRODAC reporting.<sup>114</sup>

**3.43** The contract refers to the location plan as the strategic property plan, and differentiates it from the property management plan that is required by Finance (although the ATO advised the ANAO that its property management plan is the strategic plan). These references do not reflect the ATO's actual property documents, and may not fully assist the provider in supporting the ATO's property planning process, noting the difficulties with the ATO's property planning identified in the contract extension reviews undertaken in June 2007 and September 2009.

**3.44** The ATO advised that no additional reporting on service performance measures has been requested or required at any time since commencement of the 2004 contract, although some minor instances of under-performance have been addressed through the relevant contract management groups.

## Conclusion

**3.45** The property management services contract reflects the range and complexity of the services required to manage the ATO's extensive property portfolio. The contract performance framework encompasses a comprehensive range of performance standards with a focus on the most important indicators

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<sup>114</sup> ATO, Property Management Services Contract, 2012–17, pp. 108-9

but does not attempt to monitor the full suite of the services provided. The ATO advised that to do so would require significant additional resources.

**3.46** Rather, the structure of the framework, through contract management groups and a mix of high-level critical success factors and key deliverables, is designed to support a professional relationship based on good communication and trust between the parties. The ATO advised the ANAO that the relationship with the provider has matured in recent years, supported by changes in the agency's approach to property management.

**3.47** Performance management arrangements allow many opportunities for communication between the ATO and the provider, and monthly performance monitoring provides for early redress of any lapses in service provision. Assessing the provider's performance is conducted, initially, by relevant staff in the PS&ES branch who are required to document their reasons for the score they are recommending, prior to formal discussion with the provider in the contract management groups. The PS&ES branch also consults more broadly across the ATO on the standard of services provided.

**3.48** Under the ATO's property management services contracts, 15 KPIs are routinely measured to assess the provider's performance. These KPIs are relevant and sufficiently complete in that they allow the ATO to monitor essential aspects of the services being delivered. They are also measureable without imposing an unreasonable administrative burden on either ATO staff or those of the provider. Reliability is evident from the rigour and broad consultation undertaken as part of the monthly scoring process.

**3.49** The KPI results are applied in a balanced scorecard approach to assess the provider's annual performance and bonus payment, introduced through a contract variation in 2005. In each of the six years since the introduction of the balanced scorecard, the overall score has remained static and the provider has received a bonus payment, although there was little evidence for the basis of these payments in the early years. However, contract management has strengthened since 2009-10, and close monitoring of the KPIs promotes continuous improvement in the provider's performance and eligibility for bonus payments.

**3.50** The contract management framework applied by the ATO has been assessed by an external consultant as appropriate, and the CSFs and KPIs have been reviewed and revised to align with the ATO's service priorities. Overall, the ATO has an effective process to manage the contract management services contract, and to monitor the provider's performance under the contract.



# 4. Contract Payment Arrangements

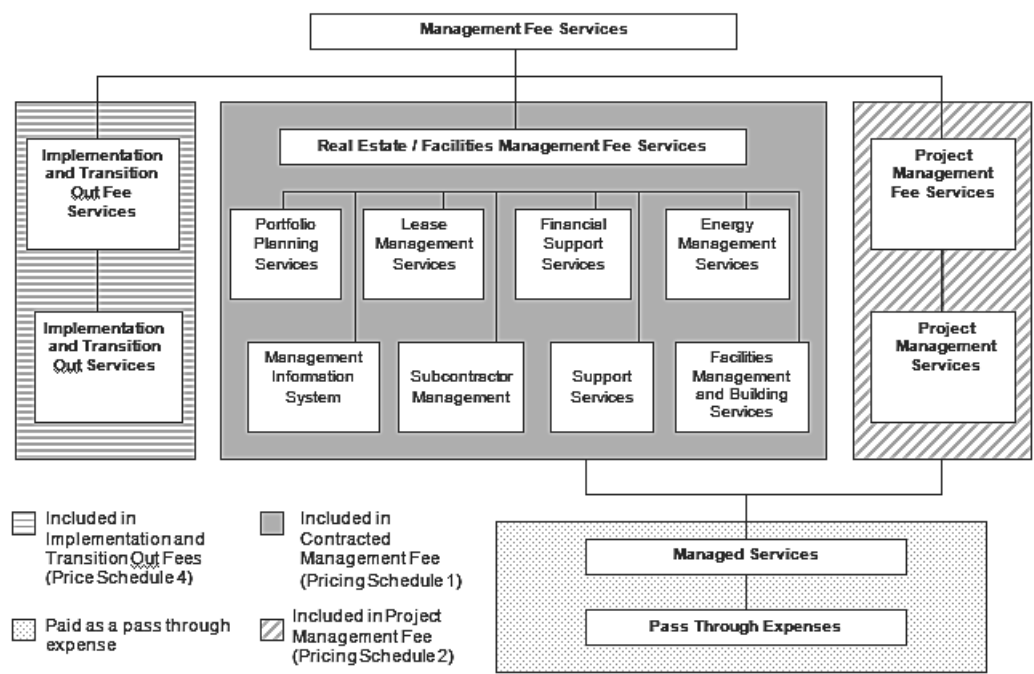
This chapter examines the ATO’s arrangements for the payment of fees and charges under the property management services contracts, and the ATO’s compliance with AusTender reporting of the contracts.

## Introduction

4.1 The ATO’s property management services contracts, 2004–12 and 2012–17, have four categories of fees: management; real estate and facilities management; project management; and implementation and transition. The contract fee structure is set out in Figure 4.1.

Figure 4.1

The ATO’s property management services contract fee structure



Source: ATO, *Contract for the provision of property management services APCM154.03, Property Management Services Fees*, p. 7.

**4.2** The fees may be for a fixed or variable amount:

- management fees are calculated on an annual basis and paid as a fixed monthly amount;
- real estate/facilities management fees cover core property management services. They are calculated on an annual basis and paid as a fixed monthly amount;
- project management fees consist of fixed fees for the management of the capital works program, and variable project delivery fees, calculated as a set percentage of the value of the capital works being undertaken; and
- implementation and transition in/out fees are associated with the costs of taking over from, or transitioning to, a different property management services provider.

**4.3** The 2012–17 contract specifies the total amounts payable for real estate/facilities management fees, and fees associated with the fixed component of the capital works program for the initial four years and for the first two-year contract extension option. Fees for any other required services are charged at the rates established in the relevant contract pricing schedule.

**4.4** In addition to the fees, the ATO has arrangements in place for the payment of managed services, or ‘pass through’ expenses, that the provider pays on behalf of the ATO. These expenses include amounts for rent and energy costs associated with buildings leased by the ATO.

## **Payment controls**

**4.5** The ATO has established controls for the payment of each category of fee. The processing and payment of fees established at a fixed rate and paid on a recurring basis—management fees, and real estate/facilities management fees—reflect a low risk for the ATO. Project management fees and managed services (‘pass through’ expense payments) are generally more complex than the other categories of fees as they include third party providers and vary in amount. The ANAO examined the controls the ATO applies to the payment of project management fees and managed services.

## Project management fees

4.6 Project management fees are paid to the service provider by the ATO on receipt of a tendered invoice for the:

- management of the capital works program, whereby a fixed annual fee is paid by monthly instalments; and
- delivery of individual projects, where fees are variable and calculated on an incremental percentage scale based on the value of the work.<sup>115</sup>

4.7 The ATO has detailed, documented procedures for the payment of project management fees that set out the stages of the payment process from receipt of an invoice to fee payment. The stages of the process include provision for invoices above the cash management threshold of \$500 000 (where the contractor is required to indicate the value of the invoice one day prior to submitting it for payment); and checking that the invoices match the purchase order number for the specific work undertaken. The provider has similar internal documentation in the form of flow charts that show the processes involved in the planning, development and closure of a project, including for invoicing the ATO.

4.8 In the three year period, 2009–10 to 2011–12, the ATO received and processed 178 invoices from the provider that included claims for both fixed and variable project management fees. The total value of these invoices was \$10 986 197, covering 73 fixed fees valued at \$10 139 230, and 178 variable fees valued at \$846 966. All invoices are submitted to the PS&ES Finance area for processing, prior to being forwarded to ATO Accounts for payment.<sup>116</sup>

4.9 The ANAO reviewed the 178 invoices and tested two key stages of the ATO's payment process, and the ATO's documentation for the processing of fees associated with the contract. The stages tested were that:

- all the invoices (including fixed and variable fees) were signed or initialled by the PS&ES Finance processing officer and noted 'emailed to ATO accounts for payment' (or similar) to indicate that all the necessary checks had been completed; and

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<sup>115</sup> Project management services include capital and minor works and as detailed in the *Service Level Agreement, APCM154.03, Attachment 3 fees and charges procedures*, p. 4.

<sup>116</sup> Costs in relation to the ATO's new office in Collins Street, Melbourne (opened 2011), and all integrated fit out project fees, are captured as part of the total project costs and are therefore capitalised against each project. They are not captured against the property operating expenses component of the project management fee allocation.

- where project delivery fee charges (variable fees) were included in the invoices, charges were validated by the relevant project manager, including that the work had been completed and to the required specifications.

**4.10** The sample included invoices where variances were noted in the fixed annual fee for the management of capital works, but those variances were in line with Consumer Price Index increases.

**4.11** The results of the testing indicated that the two stages of the ATO's payment procedures were largely followed, however:

- 37 of the 178 invoices, valued at \$643 851 (21 per cent) were not signed or marked as required, before being emailed to accounts for payment; and
- 22 invoices, valued at \$191 404 (17 per cent), that included variable fees were not signed and approved by the relevant ATO project manager.

**4.12** Twenty-five invoices valued at \$85 702 in the ANAO sample were marked, 'project cancelled', although project costs of \$53 506 and management fees of \$32 195 were paid, including instances where the management fee exceeded the project cost. The ATO advised these invoices related to projects that were reduced in scope at an early stage, or cancelled outright. For example, in one instance work was planned on upgrading the security of an adjoining wall between the ATO and another office.<sup>117</sup> The building owner subsequently advised that the adjoining office would not be subleased during the remainder of the ATO's tenancy, and so the project to strengthen the wall was cancelled.

## **Managed services (pass through expenses)**

**4.13** Under the contract, the service provider manages the bill collection and payment of all expenses for services managed on behalf of the ATO. Payment for outgoings, including rent, are made in advance by the ATO: the provider submits an invoice for the amounts and the ATO transfers the funds into an approved account that the provider can draw on when payments are due. These payments are referred to as 'pass through' expenses. Detailed

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<sup>117</sup> For security reasons, the ATO requires that adjoining walls between ATO offices and other businesses must be of a certain material and structure.

information on each invoice and payment is provided to the ATO in monthly Finance reports.

**4.14** The ATO applies a number of measures to control and verify the payment of pass through expenses that include:

- conducting a monthly quality assurance (QA) process on the provider's invoices for property rental payments, checking them against budgets and updating any changes to, for example, car parking fees associated with the property;
- selecting a monthly sample of 50 invoices (increased to 100 every third month) to check if they have been paid within the 30 days timeliness standard. The minimum performance standard is 92 per cent of invoices being paid within 30 days, and the results are included in the monthly KPI reports; and
- requiring the contractor to commission an annual, independent compliance audit of their invoicing and payments.

**4.15** The QA process applied each month is to check payments being made (against the provider's rent prepayment invoices) and that they are in line with the budgets and assumptions made at the start of the relevant financial year. Once the comparison has been completed and any queries actioned, the QA report is signed by the preparer and certified by the PS&ES finance manager.

**4.16** In relation to the payment of pass through expenses, KPI reports for the three year period 2009–10 to 2011–12 indicated that the majority of invoices were paid on time. The number of payments that did not meet the timeliness standards was within the tolerance threshold established by the KPIs, with most variances due to delays in the provision of correctly completed invoices to the service provider by various debtors. The KPI results are set out in Table 4.1.

**Table 4.1**

**KPI invoices paid within 30 days**

	2009–10	2010–11	2011–12	Jul – Dec 2012
Invoices paid within 30 days	95.3%	95.8%	97.3%	96.4%

Source: ANAO analysis of ATO KPI Reports for July to December 2012.

**4.17** The annual compliance audits conducted between 2008 and 2012 were reviewed by the ANAO. The reports noted very minor discrepancies, with the five audit opinions concluding that, in all material respects, payments were made in accordance with the requirements of the service contract. A copy of these reports is provided to the ATO each year.

## **Conclusion**

**4.18** The ATO has documented processes that support the approval and correct payment of invoices of pass through expenses and project management fees. The controls the ATO applies to the management of pass through expenses provides assurance that they are correctly paid and within the required timeframe.

**4.19** In relation to project management fees, around 17 per cent of the 133 invoices analysed by the ANAO that included variable fees for project management (totalling \$191 404) did not have evidence of project manager approval, and 21 per cent of all 178 invoices analysed (totalling \$643 851) were not marked or signed as required. The ATO has established these processes to reduce the risk of incorrect or fraudulent payments, and they should be consistently applied.

## **AusTender reporting**

**4.20** To support accountability and transparency in Government procurement, agencies are required to report their procurement activities through AusTender, the Australian Government's procurement information system. The ANAO reviewed the ATO's reporting of the value of the last two property management services contracts on AusTender.<sup>118</sup>

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<sup>118</sup> The first contract, valued at approximately \$8 million, was awarded prior to the establishment of AusTender, and as such, detailed information was not available.

## AusTender

**4.21** AusTender is a centralised web-based facility that is used to enable agencies to meet their publishing obligations under the *Commonwealth Procurement Rules* issued by Finance.<sup>119</sup>

**4.22** The *Commonwealth Procurement Rules* require FMA Act agencies and selected *Commonwealth Authorities and Companies Act 1997* (CAC Act) bodies to report their procurement activities. These activities include publishing the agency's annual procurement plan by 1 July each year, and reporting the outcomes of procurements, contracts and amendments within 42 days of entering into (or amending) a contract, if they are valued at or above the reporting threshold. The reporting thresholds are:

- \$10 000 for FMA Act agencies; and
- for relevant CAC Act bodies
  - \$400 000 for procurements other than procurement of construction services; or
  - \$9 million for procurement of construction services.

## The ATO's reporting of the value of its property management services contracts

**4.23** The ATO's property management services contracts are complex contract arrangements. The contractor is paid fixed and variable fees, sub-contracts some activities on behalf of the ATO, and manages the ATO's property costs, including rent and electricity as pass through expenses. The initial contract is for a five-year period, with extension options that may be exercised, potentially extending the contract for up to a further four-year period.

**4.24** At the procurement stage of the 2004–08 property management services contract, the estimated value of the contract in the ATO's FMA Regulation 10 submission<sup>120</sup> was \$24.5 million, consisting of \$10 million in fixed fees and an

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<sup>119</sup> The *Commonwealth Procurement Rules* represent the Government's policy framework under which agencies govern and undertake their own procurement. The *Commonwealth Procurement Rules* took effect from 1 July 2012, replacing the *Commonwealth Procurement Guidelines* issued in December 2008.

<sup>120</sup> FMA Regulation 10 is the written authority for a delegate to approve a future year spending proposal, under the FMA Act.

estimated \$14.5 million in variable fees. The ATO's subsequent AusTender entries for the contract included:

- in January 2005, the ATO reported that the finalised contract had an estimated value of \$10.08 million (the fixed fee component of the contract only); and
- in September 2012, the final entry for this contract showed the value of the contract had increased to \$555.27 million, a substantial increase from the original estimated value.

**4.25** This final amount included amendments to the contract to support the contract extensions, 2008–10 and 2010–12. Extracts from the ATO's AusTender reporting of the property management services contract 2004–12 including extension options, and the corresponding increase in the total value of the contract after each amendment, are set out in Table 4.2.

**Table 4.2**

**Extracts from the ATO's AusTender reporting of the property management services contract, 2004–12**

Date published on AusTender	Description of amendment	Value of amendment	Contract value (million)
10 Jan 2005	Contract establishment		\$10.8
2 Nov 2007	Updated confidentiality details	\$17 061 991	\$27 143 625
10 Dec 2007	Cancellations and incorporation of additional amount—general clean up of associated contracts	\$53 395 451	\$80 539 076
1 May 2009	Extension of the contract end date to 30 Jun 2010. No increase in expenditure	\$0	\$80 539 076
3 Jun 2009	Increase of funding to reflect all expenditure incurred under this contract	\$302 849 023	\$383 388 099
20 Jul 2010	Additional funding for the final two-year extension to the contract	\$169 174 955	\$552 563 094
4 Sep 2012	Moonee Ponds fit out lease hold improvements and bulk furniture fittings	\$2 750 000	\$555 263 094

Source: AusTender.

**4.26** The 3 June 2009 AusTender entry reflects a change in the ATO's reporting to include the value of pass through expenses in the reported value of the contract. However, this does not include all pass through expenses, as



energy and rent are gazetted separately. Over the period of the contract, 2004–12, the ATO advised that total property expenditure was \$1.713 billion, of which over \$1.508 billion in pass through expenses was paid by the provider on behalf of the ATO, comprising \$1.435 billion in rent, and \$73 million in electricity charges.

**4.27** The ATO's procurement planning for the new property management services contract, 2012–17 (excluding possible extension options) identified the likely contract expenditure would be in the order of \$271.2 million, including payments to subcontractors of \$252.3 million. The ATO estimated the total cost of the contract over nine years, should the extension options be exercised, as \$488 million.<sup>121</sup> In contrast, the ATO's contract notice on AusTender reports \$17 252 397 as the value of the contract (effectively, the planning estimate for the provider's fees for the initial contract period, 2012–17, and not including any estimates of pass through expenses).

**4.28** The ATO's reporting of the value of each contract includes, at different times, different components of the costs: fixed fees only, or fixed and variable fees. Additionally, the treatment of pass through expenses, with regard to the value of the contract, is not defined.

**4.29** In 2011–12 the ATO identified a problem with late and inaccurate reporting of contract details on AusTender, and undertook a review of its gazettal processes.<sup>122</sup> Findings in the review included that better support could be provided to staff on gazettal processes, and that the previous practice of highlighting in performance agreements the importance of accurately reporting should be re-enforced.

**4.30** Following the review, a number of practices and procedures, designed to improve gazettal requirements across the ATO, were introduced by the ATO's Contract Procurement Branch. In relation to the new property management services contract, these practices include measures to ensure transparency by separating contract costs from pass through costs, such as for energy and rent, and:

- individually gazetting each lease the ATO enters into, when the lease is signed; and

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<sup>121</sup> ATO, *Procurement plan for a request for Property Management Services*, 28 April 2011.

<sup>122</sup> ATO, *Late Gazettal Solutions for Endorsement*, 16 February 2012.

- recording the specific activities on separate purchase order lines and ensuring that these amounts are gazetted separately with the appropriate references to other gazettals and the Head Contract.

## AusTender reporting guidance

**4.31** Finance provides procurement policy and guidance to assist agencies' compliance with their AusTender reporting requirements.<sup>123</sup> The guidance includes: that agencies must provide supplier and contractor details, including the value of the contract; and that only details of contracts for the procurement of goods or services are to be reported. Arrangements that are not to be reported on AusTender include grants (whether in the form of a contract or conditional gift), and payments or transfers of funds which are not in return for goods or services (and are therefore not a procurement).

**4.32** Guidance for agencies in relation to reporting the value of a contract states:

For each contract reported, the agency must report the total value of the contract (including GST where applicable). This does not take into account any options, extensions, renewals, or other mechanisms that may be exercised at a future date to increase the value of the contract.

- In the case of a contract which spans several years, the total value of the contract is reported, not the value on a per-annum basis.
- In the case of a contract where part of the value is a trade-in, the total value must be reported. The fact that some of the contract value will be met through a trade-in on an existing asset is not relevant for reporting purposes.
- The value of individual invoices or purchase orders should not be reported on AusTender unless they reflect the full value of a contract that has not been previously reported.

**4.33** Published guidance in relation to the total value of the contract that is to be reported on AusTender does not define how agencies should treat the value of pass through expenses. The ANAO sought advice from Finance on the reporting requirements for complex contract arrangements, particularly the

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<sup>123</sup> Department of Finance and Deregulation, *Buying for the Australian Government, Transparency in Australian Government Procurement*, available from <<http://www.finance.gov.au/procurement/procurement-policy-and-guidance/buying/accountability-and-transparency/transparency-procurement/principles.html>> [accessed 22 February 2013].

treatment of pass through expenses. Finance advised that further whole-of-government guidance would assist in ensuring transparency of the financial commitment made by an agency for these types of complex procurements. Finance advised that this work, to enhance existing guidance, could be pursued through the Senior Procurement Officials Reference Group (SPORG), which is a well-established network of procurement professionals across all FMA Act and prescribed *Commonwealth Authorities and Companies Act, 1997* agencies and bodies.

## Conclusion

**4.34** The ATO identified issues with its AusTender gazettal processes, and has introduced new measures to support accurate and timely compliance with AusTender reporting requirements, including for the reporting of its property management services contracts. These contracts are complex, and there have been inconsistencies in the ATO's AusTender reporting over the terms of the contracts. However, whole of government guidance on AusTender reporting for complex procurements could be strengthened to support accountability and transparency in government procurement activities.

## Recommendation No. 2

4.35 The ANAO recommends that the Department of Finance and Deregulation engages with the Australian Taxation Office and other agencies through the existing network of procurement professionals to further develop and publish whole-of-government guidance for AusTender reporting of complex procurements arrangements.

### Finance response

*Agreed.*

### ATO response

*Noted. The ATO is looking forward to working with the Department of Finance and Deregulation and other agencies to develop whole-of-government guidance for AusTender reporting of complex procurement arrangements.*

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Ian McPhee  
Auditor-General

Canberra ACT  
24 June 2013

# Appendices

## Appendix 1: Agency Responses



Australian Government  
Australian Taxation Office

SECOND COMMISSIONER OF TAXATION

Ms Barbara Cass  
Group Executive Director  
Performance Audit Services Group 11/6/2013  
Australian National Audit Office  
GPO Box 707  
CANBERRA ACT 2601

Dear Ms Cass

### AUSTRALIAN NATIONAL AUDIT OFFICE PERFORMANCE AUDIT OF MANAGEMENT OF THE ATO PROPERTY PORTFOLIO

Thank you for your letter dated 14 May 2013 and for the opportunity to provide comments on the proposed report *"Management of the Australian Taxation Office's Property Portfolio"*.

The ATO agrees with recommendation one and supports recommendation two which is directed at the Department of Finance and Deregulation.

I would like to thank the Australian National Audit Office audit team for the cooperative and professional manner they have adopted in working with us on this matter. I look forward to continuing the good working relationship developed in this performance audit.

Attached is the ATO response to recommendations (*Annexure 1*) and summary of our comments to be included in the report (*Annexure 2*).

If you require further information on this matter, please contact Chief Finance Officer, Frances Cawthra on 02 6216 2149.

Yours sincerely

Neil Olesen  
A/g Second Commissioner  
6 June 2013



**Australian Government**  
**Department of Finance and Deregulation**

Our Ref: 0008846

Ms Barbara Cass  
Group Executive Director *14/6/2013*  
Performance Audit Services Group  
Australian National Audit Office  
GPO Box 707  
Canberra ACT 2601

Dear Ms Cass

I refer to your letter of 23 May 2013, inviting comment from the Department of Finance and Deregulation (Finance) on Recommendation No.2 detailed in the proposed audit report on the *Management of the Australian Taxation Office's Property Portfolio*. As requested, please find the Department's response below.

I understand Finance's Property and Construction Division has separately provided you with the additional property data from PRODAC requested in your draft report.

**Formal Comments**

*Recommendation No.2*

Agreed.

**Summary of Finance's Comments**

The Finance website guidance on reporting of contracts does not include specific information on the reporting of complex procurement arrangements. Finance will develop additional guidance to assist agencies in this area.

If you would like to discuss the matter further, the contact officer is Ms Yvette Sims, Assistant Secretary, Procurement Policy Branch on (02) 6215 2970.

Yours sincerely

John Sheridan  
First Assistant Secretary  
Technology and Procurement Division  
*12* June 2013

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